

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual report for Lee & Man Handbag International Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2003.

RESULTS AND DIVIDENDS

The Group's audited consolidated turnover for the year was HK\$919,261,000 and the audited consolidated profit attributable to shareholders was HK\$115,683,000.

An interim dividend of HK\$0.03 per share was paid during the year.

The directors resolved to recommend the payment of a final dividend of HK\$0.05 per share for the year under review.

BUSINESS REVIEW

For the year ended 31 March 2003, the Group achieved an increase of 30.6% in turnover to HK\$919 million and the profit attributable to shareholders increased by 45.9% to HK\$116 million. Given the current stagnant market conditions, the Group considered this performance is very encouraging.

The Group manufactures a wide range of handbag products and sales to a broad and diversified customer base mainly located in United States and Europe. The U.S. market continued to be the largest market of the Group, accounting for 75.1% of turnover and recorded an increase of 40.1% of sales compared to last year. The European market recorded a moderate increase of 2.3% of sales and it accounted for 19.2% of the turnover of the Group. Due to the increased demand from our customers in both of the U.S. and European markets, the Group continued to achieve a steady growth in turnover. This reflects the Group's marketing efforts to diversify the customer base in our major geographical markets.

The growth of gross margin of the business can be maintained despite the increased pricing pressure, due to the enhancement of quality of the management staff and the rebuilding of the majority of the production facilities in China in order to increase the production efficiency. As China has emerged the low cost location for the global supply of the handbag products, our strategic location in China, which combines scale advantages of our production facilities and a well-trained local workforce, enables us to deliver high quality and competitive-priced products to our global customers. We will continue to increase our strength in the product design and product development capabilities, to keep abreast of the latest market trends and new materials in order to produce more originally designed fashionable handbag products to attract more and more multi-national retailers to become our business partners and to increase our market share in the global handbag industry.

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Staff

For the year ended 31 March 2003, the Group's operations had a workforce of more than 6,000 people. The Group maintains a good relationship with its employees, and provides them with proper training, and competitive compensation and incentives. The Group's success in retaining staff is well illustrated by the fact that most of the senior managers have been with the Group for over 10 years.

Prospects

Being one of the largest key manufacturers in the global handbag industry, the Group performed well in exploring the markets, in developing new products and controlling cost. With our committed management team, we are confident to maintain its good performance in the years ahead. The Group had accumulated substantial experience as a result of doing business in China for over twenty years and had developed extensive relationship and established good reputation in China. With these favourable attributes, the Group will be in a well position to seek investment opportunities to capture the growth potential of the PRC market.

APPRECIATION

We thank all our customers, suppliers and all members of our management team and staff for their loyalty, dedication, and contribution during the year under review.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 16 July 2003