

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

CHANGE OF NAME

Pursuant to a special resolution passed at extraordinary general meeting held on 19 August 2003, the name of the Company was changed from Lee & Man Handbag International Limited to Lee & Man Holding Limited.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 16.

An interim dividend of HK\$0.03 per share amounting to HK\$24,750,000 was paid to the shareholders during the year.

The directors recommend the payment of a final dividend of HK\$0.05 per share to the shareholders on the register of members on 16 August 2004, amounting to HK\$41,250,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$11 million for the purpose of expanding its business. In addition, the Group revalued its property, plant and equipment at 31 March 2004. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Wai Siu Kee (*Chairman*)

Poon Lai Ming

Lee Marina Man Wai

Lee Lai Chu (appointed on 19 August 2003)

Ng Yu Hung (resigned on 19 August 2003)

Independent non-executive directors

Wan Chi Keung, Aaron JP

Heng Kwoong Seng (appointed on 3 November 2003)

Lee Ming Cheong, Alfred (resigned on 3 November 2003)

In accordance with Article 86(3) and Article 87(1) of the Company's Articles of Association, Wai Siu Kee, Lee Lai Chu, Heng Kwoong Seng and Wan Chi Keung, Aaron JP retire and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

Except for Lee Lai Chu, each of the executive directors has entered into a service agreement with the Company for an initial period of three years commencing 1 January 2002, which will continue thereafter unless and until terminated by either party by three months' prior written notice.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2004, the interests and short positions of directors and the chief executives and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wai Siu Kee	Discretionary object	617,000,000 (Note)	74.79%
Poon Lai Ming	—	—	—
Lee Marina Man Wai	—	—	—
Lee Lai Chu	Beneficial owner	1,000,000	0.12%
Wan Chi Keung, Aaron JP	—	—	—
Heng Kwoo Seng	—	—	—

Note: 617,000,000 ordinary shares in the Company were held by Fortune Star Tradings Ltd., a company wholly-owned by Newcourt Trustees Limited as trustee for The Fortune Star 1992 Trust, a discretionary trust that the discretionary objects of which include Wai Siu Kee.

Save as disclosed above, none of the directors or the chief executives, or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A share option scheme which detailed in note 23 to the financial statements was adopted by the Company on 14 December 2001, under which the directors or chief executives or their associates of the Company may be granted options to subscribe for shares in the Company. No options were granted by the Company under the scheme since its adoption.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

At 31 March 2004, shareholders (other than directors of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Fortune Star Tradings Ltd.	Beneficial owner	617,000,000	74.79%
Value Partners Limited	Investment manager	65,350,000	7.92%
Mr. Cheah Cheng Hye	Interest of controlled corporation	65,350,000 (Note)	7.92%

Note: Mr. Cheah Cheng Hye is deemed to be interested in the shares through his 31.82% interest in Value Partners Limited.

Save as disclosed above, as at 31 March 2004, the Company has not been notified by any persons (other than directors of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 32 to the financial statements. In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "Connected transactions", there were no contracts of significance to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 49% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 25% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers of the Group.

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PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Wai Siu Kee

Chairman

Hong Kong, 6 July 2004