Corporate Information

BOARD OF DIRECTORS

Mr. LEE Wan Keung (Chairman)
Ms. WAI Siu Kee (Managing Director)
Ms. POON Lai Ming
Mr. NG Yu Hung
Ms. LEE Marina Man Wai
Mr. HUI Yick Kwan, Tony
Mr. WONG Kai Tung, Tony*
Mr. HENG Kwoo Seng*
Mr. LEE Ming Cheong, Alfred*
Mr. WAN Chi Keung, Aaron*

* *Independent non-executive director*

COMPANY SECRETARY

Mr. HUI Yick Kwan, Tony

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
British West Indies

PRINCIPAL OFFICE

8th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

WEBSITE

http://www.leeman.com.hk

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2002 Annual General Meeting of the Members of the Company will be held at The Ballroom "B", 2/F, Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on 31 August 2002 (Saturday) at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and reports of the Directors and Auditors for the year ended 31 March 2002.

2. To re-elect directors and to authorise the Board of Directors to fix their remuneration.

3. To re-appoint Deloitte Touche Tohmatsu as Auditors and to authorise the Board of Directors to fix their remuneration.

By Order of the Board
Hui Yick Kwan, Tony
Company Secretary

Hong Kong, 22 July 2002

Notes:

(a) The register of Members of the Company will be closed from 21 August 2002 (Wednesday) to 24 August 2002 (Saturday) (both days inclusive) during which period no share transfer will be registered. All transfer documents accomplished by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on 20 August 2002.

(b) A Member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Member of the Company.

(c) A form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's Share Registrar in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the annual general meeting or adjournment meeting (as the case may be) and in default the proxy shall not be treated as valid.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to our shareholders our first set of published annual report for Lee & Man Handbag International Limited (the "Company") and its subsidiaries (the "Group") since the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by introduction on 16 January 2002.

RESULTS AND DIVIDENDS

Pursuant to a group reorganisation and the basis of preparation for the accounts as set out in note 1 to the financial statements, consolidated turnover increased moderately by 1.4% to HK$703.8 million and the profit attributable to shareholders was HK$79.1 million for the full year, which was at approximately the same level as compared with previous financial year.

The subsidiaries of the Company had already paid approximately HK$91 million to their former shareholders in the current year prior to the group reorganisation and the Company only became the holding company of the Group on 14 December 2001, the directors resolved not to recommend the payment of any final dividend for the year under review.

BUSINESS REVIEW

The business has performed similar to the previous year. For the year ended 31 March 2002, the Group increased its turnover and maintained its profit level as compared with 2001. Given the current stagnant market conditions, the Group considered this performance is satisfactory.

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. Due mainly to the increased demand from our customers in the European market, the Group continued to achieve a steady growth in turnover during the year under review. This reflects the Group's marketing efforts to diversify the customer base in our major geographical markets. Meanwhile, the Group was able to maintain a steady sales revenue in the U.S. market. Moreover, over the past few months, consumer spending in the United States has generally held up remarkably well and we are seeing particularly positive signals in terms of the orders from our customers.

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 continuous improvement efforts by the management at the production plants. As China has emerged a 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 competitively-priced products to our global customers. We will continue to upgrade our production facilities and to improve our management system so as to maintain our competitive advantages.

Our increased strength in the design and product development capabilities to produce more originally designed fashionable handbag products enable us to attract more and more multi-national retailers to become our business partners and to increase our market share in the global handbag industry. We will continue to keep abreast of the latest market trends and new materials for the production of the fashionable handbag products.

Staff

For the year ended 31 March 2002, the Group's operations had a workforce of more than 5,000 people. The Group maintains a good relationship with its employees and provide them with proper training, 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 is in a well position to increase its market share and to maintain its performance in the foreseeable future. The orders from our customers so far appear quite encouraging. On this basis, the directors are optimistic that the Group's business will not be adversely affected by the downturn of the global economy.

We will continue to process a strong competitive position in the market place. Barring any unforeseeable circumstances, the Group is expected to achieve a satisfactory return to the shareholders.

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
LEE WAN KEUNG
Chairman

Hong Kong, 22 July 2002

Management Discussion and Analysis

RESULTS OF OPERATION

Pursuant to a group reorganisation and the basis of preparation for accounts as set out in note 1 to the financial statements, the turnover of the Group increased moderately by 1.4% to HK$703.8 million and the profit attributable to shareholders was HK$79.1 million for the full year, which was at approximately the same level in 2001. The earnings per share for the year was HK$ 9.6 cents when compared with HK$9.5 cents in last year.

The United States market continued to be the largest market for the Group's products. Sales to the United States constituted 70.1% of Group turnover compared with 72.5% in 2001. Sales to Europe amounted to 24.5% compared with 20.8% in 2001. Other markets collectively accounted for 5.4% compared with 6.7% in 2001. The growth in the European market was mainly due to the increased in sales volume of the Group's products. As the U.S. economy is experiencing a broad-based downturn which was exacerbated by the events of September 11, sales to the United States was marginally affected.

During the year under review, the gross profit margin of the Group was increased to 32% due to the increased sales of originally designed products. This increased in gross profit margin was mainly the result of our strategic expenditure in the area of design and marketing. Accordingly, the distribution expenses were increased by 44.3% to HK$50.8 million and the administration expenses were increased by 13.0% to HK$99.2 million for the current full year under review. As a result, the Group achieved a similar level of profit attributable to shareholders as compared with 2001. Given the current stagnant market conditions, the Group considered this performance is satisfactory.

BUSINESS AND OPERATION REVIEW

A detailed review of the Group's business operations and prospects is included in the Chairman's Statement.

CAPITAL STRUCTURE

The Company was incorporated in the Cayman Islands on 27 July 2001 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each, one share of which was issued nil paid on 22 August 2001.

In preparation for the listing of the shares of the Company on the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 14 December 2001:

(a) the authorised share capital of the Company was increased from HK$100,000 to HK$500,000,000 by the creation of an additional 4,999,000,000 shares of HK$0.1 each; and

(b) the Company issued an aggregate of 824,999,999 shares of HK$0.1 each, credited as fully paid and to credit as fully paid at par the one share issued nil paid on 22 August 2001.

Details of the changes in share capital of the Company during the year are set out in note 18 to the financial statements.

FINANCIAL RESOURCES

The total shareholders' fund of the Group as at 31 March 2002 was approximately HK$231 million.

The Group maintains a very healthy financial position with a low level of debts and a high liquidity. The Group ended the year with a current ratio of 2.3 and a zero gearing ratio (long term liabilities to equity).

The Group had a net cash surplus of approximately HK$19 million and was deposited in the leading banks in Hong Kong in either Hong Kong dollars or United States dollars.

Net cash inflow provided by operating activities totaled approximately HK$68 million. The consistent strong cash flow from operating activities reflects the Group's strength in the working capital management to support the business operations. The Group's future cash flow and its available banking facilities will provide sufficient funds to the Group to meet its operation requirements.

FUNDING POLICY

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars or United States dollars. As a result, the Group has a minimal exposure to foreign exchange risk.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2002, the Group had no capital commitments and no material contingent liabilities other than trade bills discounted in the ordinary course of business.

PLEDGE OF ASSETS

At 31 March 2002, the Group did not have any assets pledged for general facilities.

HUMAN RESOURCES

At 31 March 2002, the Group had a workforce of more than 5,000 people. Remuneration packages comprised salary and bonuses based on individual merits. The Group believes that its remuneration packages are competitive as compared with other companies in the industry.

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31 March 2002, no option was granted under the scheme.

AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established.

The Audit Committee consists of three independent non-executive directors, namely Mr. Heng Kwoo Seng, Mr. Wong Kai Tung, Tony and Mr. Lee Ming Cheong, Alfred. The principal activities of the Audit Committee include the review of the Group's internal control system and financial reporting matters including the review of connected transactions and unaudited financial statements. They have met with the executive directors and the external auditors to consider the nature and scope of the audit.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LEE Wan Keung, aged 59, is the chairman of the Company and the founder of the Group. He is responsible for the development of corporate strategies, corporate planning and overall management of the Group. He has over 25 years of experience in manufacturing and international trade. Mr. Lee is the Deputy Chairman of Hong Kong Hainan Commercial Association (香港海南商會) and an executive member of the Political Consultative Committee of Guangdong Province, the PRC (中國政治協商會廣東省委員會常務委員).

Ms. WAI Siu Kee, aged 58, is the managing director of the Company who joined the Group since its establishment in 1976. Ms. Wai has more than 25 years of experience in the handbag business. She is responsible for the general operation of the Group, in particular the marketing and development of the business of the Group.

Ms. POON Lai Ming, aged 46, joined the Group in 1976. She has over 24 years of experience in the handbag industry. She is responsible for the overall management and the operation of the Group's manufacturing activities in the PRC.

Mr. NG Yu Hung, aged 48, joined the Group in 1977. He has over 25 years of experience in the handbag industry. He is responsible for the marketing and development of the Group's business in the European market.

Ms. LEE Marina Man Wai, aged 30, joined the Group in 1993 and is responsible for marketing and development of the business in the US market. She graduated from the University of British Columbia, Canada with a bachelor's degree in arts. Ms. Lee is a daughter of Mr. Lee Wan Keung, the Group's chairman.

Mr. HUI Yick Kwan, Tony, aged 44, is responsible for the financial control and management of the Group. He is a fellow member of the Chartered Association of Certified Accountants and is an associate member of the Hong Kong Society of Accountants. He joined the Group in 1996. He is also the Company Secretary of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Kai Tung, Tony, aged 59, has been a practising lawyer in Hong Kong since 1968 and has also been admitted as a solicitor in England and Wales. He is currently a consultant of Messrs. Hastings & Co., Solicitors and Notaries.

Mr. HENG Kwoo Seng, aged 54, is the senior partner of Morison Heng, Chartered Accountants and Certified Public Accountants in Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He is also a non-executive director of seven other listed companies and a company secretary of another listed company.

Profile of Directors and Senior Management

Mr. LEE Ming Cheong Alfred, aged 58, Mr. Lee holds a bachelor's degree in Science and a master degree of Arts in Economics. Mr. Lee has more than 30 years of experience in management spanning a diverse range of business from trading, manufacturing, share brokerage to property investment. He is currently an executive director of a private investment company.

Mr. WAN Chi Keung, Aaron JP, aged 53, is an associate of the Institution of Business Agents, a member of the Land Institute (London), an associate of the Chartered Institute of Arbitrators and a fellow of The Institute of Administrative Accounting. He is engaged in the business of property valuation and property auction and has over 15 years related experience.

SENIOR MANAGEMENT

Mr. LAM Chi Kin, aged 38, is the factory manager of the Group. He joined the Group in 1983 and has over 18 years of experience in the handbag industry. He is responsible for the administration of the Group's factory in Dongguan.

Ms. LI Yuen Ling, aged 40, is the finance manager of the Group. She joined the Group in 1984 and has over 17 years of experience in accounting and finance for manufacturing operations. She is responsible for the Group's accounting activities.

Ms. TSUI Chin Wai, Jennifer, aged 37, is the sales manager of the Group. She graduated from the State University of New York with a master's degree in business administration. She is responsible for the sales and marketing of the Group's business for the European market. She joined the Group in 1990.

Mr. CHENG Ming Kwong, aged 46, is the assistant finance manager of the Group. He holds a bachelor's degree of commercial science in accounting and banking from Chu Hai College. He is responsible for the management accounting of the Group's factory in Gao Bu Industrial Park. He joined the Group in 1992.

Mr. CHAN Kam Bun, aged 53, is the business manager of the Group. He joined the Group in 1982 and has over 18 years' experience in the handbag business. He is responsible for the business development of the Group.

Directors' Report

The directors have pleasure in presenting their first report and the audited financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 28 to the financial statements.

ARTICLES OF ASSOCIATION

By a special resolution in writing of the then sole shareholder of the Company dated 14 December 2001, the Company adopted a new set of Articles of Association.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated in the Cayman Islands on 27 July 2001 as an exempted company under the Companies Law (Revised) Chapter 22 of the Cayman Islands. Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 14 December 2001. Details of the group reorganisation are set out in the paragraphs headed "Corporate Reorganisation" in appendix V of the introduction document issued by the Company dated 21 December 2001. The shares of the Company were listed on the Stock Exchange by introduction on 16 January 2002.

The group reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these financial statements is set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 19.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 18 to the financial statements.

SHARE OPTIONS

(a) The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 14 December 2001 for the purpose of providing incentives to directors and eligible persons. The Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 13 December 2010.

Under the Scheme, the Board of Directors (the "Directors") may at their discretion grant options to (i) any director, employee or consultant of the Group or a company in which the Group holds an equity interest or a subsidiary of such company ("Affiliate"); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate; or (iv) any customer, supplier or adviser as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

Options granted must be taken up within 21 days of the date of grant. The maximum number of the Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company at any point in time. The maximum number of the Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten yeas from the date of issue of the relevant option). Options may be granted without initial payment. The exercise price is equal to the higher of (i) nominal value of the Shares; (ii) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for five business days immediately preceding the date of the grant of the options.

Since its adoption up to 31 March 2002, no option was granted by the Company under the Scheme.

(b) The share option scheme of the Company's fellow subsidiary at 31 March 2002, Lee & Man Holdings Limited ("Lee & Man Holdings") (the "Lee & Man Holdings Scheme"), was adopted pursuant to a resolution passed on 12 May 1997 for recognition of past services contributed by the eligible directors and employees, and will expire on 11 May 2007. Under the Lee & Man Holdings Scheme, the Board of Directors of Lee & Man Holdings may at their discretion grant options to executive directors and employees of Lee & Man Holdings and its subsidiaries, to subscribe for shares in Lee & Man Holdings.

The maximum number of shares in respect of which options may be granted under the Lee & Man Holdings Scheme is not permitted to exceed 10% of the issued share capital of Lee & Man Holdings at any point in time. The number of shares in respect of which options may be granted to any individual at the grant date is not permitted to exceed 25% of the number of shares issued and issuable under the Lee & Man Holdings Scheme.

Options granted must be taken up within 21 days of the date of grant. No consideration is payable on the grant of an option. Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of Lee & Man Holdings may at their discretion determine the specific exercise period. The exercise price is determined by the Board of Directors of Lee & Man Holdings and will not be less than the higher of the nominal value of the shares of Lee & Man Holdings and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.

At 31 March 2002, no option was granted by Lee & Man Holdings and outstanding under the Lee & Man Holdings Scheme.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in note 20 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$7.5 million for the purpose of expanding its business. In addition, the Group revalued its property, plant and equipment at 31 March 2002. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors

Lee Wan Keung (Chairman)	(appointed on 22 August 2001)
Wai Siu Kee (Managing Director)	(appointed on 22 August 2001)
Poon Lai Ming	(appointed on 22 August 2001)
Ng Yu Hung	(appointed on 22 August 2001)
Lee Marina Man Wai	(appointed on 22 August 2001)
Hui Yick Kwan, Tony	(appointed on 22 August 2001)

Independent non-executive directors

Wong Kai Tung, Tony	(appointed on 12 December 2001)
Heng Kwoo Seng	(appointed on 12 December 2001)
Lee Ming Cheong, Alfred	(appointed on 12 December 2001)
Wan Chi Keung, Aaron	(appointed on 12 December 2001)

In accordance with Article 87 of the Company's Articles of Association, Lee Marina Man Wai and Hui Yick Kwan, Tony 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.

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.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2002, the interests of directors and their associates in the ordinary shares of the Company and of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(a) Interests in the Company:

	Number of ordinary shares in the Company held			
Name of director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**
Lee Wan Keung	–	–	–	609,750,000 *(Note)*
Wai Siu Kee	–	–	–	609,750,000 *(Note)*
Poon Lai Ming	1,000,000	–	–	–
Ng Yu Hung	–	–	–	–
Lee Marina Man Wai				
Hui Yick Kwan, Tony	–	–	–	–
Wong Kai Tung, Tony	–	–	–	–
Heng Kwoo Seng	–	–	–	–
Lee Ming Cheong, Alfred	–	–	–	–
Wan Chi Keung, Aaron	–	–	–	–

(b) Interests in an associated corporation:

	Number of ordinary shares in Lee & Man Holdings held			
Name of director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**
Lee Wan Keung	–	–	–	609,750,000 *(Note)*
Wai Siu Kee	–	–	–	609,750,000 *(Note)*
Wong Kai Tung, Tony	–	–	–	–
Heng Kwoo Seng	–	–	–	–

Note: 609,750,000 ordinary shares in the Company and Lee & Man Holdings 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 the discretionary objects of which include Mr. Lee Wan Keung and certain of his family members and Ms. Wai Siu Kee.

Save as disclosed above and other than certain nominee shares in the subsidiaries held by Mr. Lee Wan Keung in trust for the Group, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as at 31 March 2002 as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share options", at no time during the year was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' interests in securities", the Company had not been notified of any interests representing 10% or more of the Company's issued share capital.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 27 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 60% 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Company was listed on the Stock Exchange.

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 was in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules since it was listed on the Stock Exchange.

AUDITORS

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

On behalf of the Board
LEE WAN KEUNG
Chairman

Hong Kong, 22 July 2002

Auditors' Report

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF LEE & MAN HANDBAG INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong, 22 July 2002

Consolidated Income Statement

For the year ended 31 March 2002

	NOTES	2002 HK$'000	2001 HK$'000
Turnover		**703,791**	693,921
Cost of sales		**(477,270)**	(493,407)
Gross profit		**226,521**	200,514
Other revenue		**10,033**	9,525
Distribution costs		**(50,708)**	(35,142)
Administrative expenses		**(99,211)**	(87,794)
Profit from operations	*4*	**86,635**	87,103
Finance costs	*7*	**(934)**	(1,205)
Profit before taxation		**85,701**	85,898
Taxation	*8*	**(6,635)**	(7,298)
Profit attributable to shareholders		**79,066**	78,600
Dividends	*9*	**91,250**	72,470
Earnings per share (HK cents)	*10*	**9.6**	9.5

Consolidated Balance Sheet

At 31 March 2002

	NOTES	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**127,519**	126,965
CURRENT ASSETS			
Inventories	*13*	**84,486**	89,076
Trade and other receivables	*14*	**71,560**	58,075
Bills receivable		**7,788**	5,977
Taxation recoverable		**178**	158
Bank balances and cash		**18,951**	57,035
		182,963	210,321
CURRENT LIABILITIES			
Trade and other payables	*15*	**69,135**	81,588
Bills payable		**1,282**	–
Amounts due to related companies	*16*	**812**	44,196
Taxation payable		**1,148**	1,005
Short-term bank borrowings	*17*	**7,555**	5,080
		79,932	131,869
NET CURRENT ASSETS		**103,031**	78,452
		230,550	205,417
CAPITAL AND RESERVES			
Share capital	*18*	**82,500**	70,500
Reserves	*20*	**148,050**	134,917
		230,550	205,417

The financial statements on pages 19 to 47 were approved and authorised for issue by the Board of Directors on 22 July 2002 and are signed on its behalf by:

LEE WAN KEUNG
Chairman

WAI SIU KEE
Managing Director

Balance Sheet

At 31 March 2002

	NOTES	HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	12	**215,145**
CURRENT ASSETS		
Other receivables		**7**
Bank balances and cash		**126**
		133
CURRENT LIABILITIES		
Other payables		**300**
Amount due to a subsidiary		**5,300**
		5,600
NET CURRENT LIABILITIES		**(5,467)**
		209,678
CAPITAL AND RESERVES		
Share capital	18	**82,500**
Reserves	20	**127,178**
		209,678

LEE WAN KEUNG
Chairman

WAI SIU KEE
Managing Director

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 March 2002

	2002	2001
	HK$'000	*HK$'000*
Surplus (deficit) arising on revaluation of property, plant and equipment	**4,528**	(4,296)
Exchange differences arising from translation of financial statements of overseas operations	**482**	(3,447)
Profits (losses) not recognised in the consolidated income statement	**5,010**	(7,743)
Profit for the year	**79,066**	78,600
Total recognised gains	**84,076**	70,857

Consolidated Cash Flow Statement

For the year ended 31 March 2002

	NOTES	2002 HK$'000	2001 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	**68,181**	87,310
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		**(91,250)**	(72,470)
Interest paid on bank borrowings		**(934)**	(1,199)
Interest received		**1,704**	3,222
Interest paid on obligations under a finance lease		**–**	(6)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(90,480)**	(70,453)
TAXATION			
Hong Kong Profits Tax paid		**(6,499)**	(10,002)
Overseas taxation paid		**(13)**	(1)
Hong Kong Profits Tax refunded		**–**	1,231
NET TAXATION PAID		**(6,512)**	(8,772)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(7,475)**	(4,613)
Proceeds from disposal of property, plant and equipment		**646**	551
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(6,829)**	(4,062)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		**(35,640)**	4,023
FINANCING	22		
Expenses incurred in connection with listing of shares		**(4,919)**	–
Repayment of bank loan		**(2,340)**	(2,749)
New bank loan raised		**2,496**	2,340
Repayment of obligations under a finance lease		**–**	(31)
NET CASH OUTFLOW FROM FINANCING		**(4,763)**	(440)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(40,403)**	3,583
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		**54,295**	50,712
CASH AND CASH EQUIVALENTS CARRIED FORWARD	23	**13,892**	54,295

Notes to the Financial Statements

For the year ended 31 March 2002

1. GENERAL

The Company is an investment holding company incorporated on 27 July 2001 and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands. Its ultimate holding company is Fortune Star Tradings Ltd. ("Fortune Star"), a company which is incorporated in the British Virgin Islands.

On 14 December 2001, pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Lee & Man Development Company Limited ("Lee & Man Development") through a share swap and became the holding company of the companies now comprising the Group.

Following the Group Reorganisation, the principal activities of its subsidiaries are engaged in the manufacture and sales of handbags and luggage. Details of the Group Reorganisation are set out in the introduction document issued by the Company dated 21 December 2001.

The shares of the Company were listed on the Stock Exchange by introduction on 16 January 2002.

The Group Reorganisation is accounted for using merger accounting in accordance with the Hong Kong Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions". The consolidated financial statements for the year ended 31 March 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

No balance sheet of the Company as at 31 March 2001 is presented as the Company was not incorporated on that date.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipment of the Group, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The Group Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. Apart from the Group Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment other than buildings under construction are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent disposal or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The valuation of freehold land is not amortised.

The valuation of leasehold land and land use rights is amortised over the period of the lease or rights respectively using the straight line method.

Buildings under construction are stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, if any, attributable to the buildings under construction. They are not depreciated or amortised until completion of construction. The cost of completed buildings under construction is transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation is provided to write off the valuation of buildings and leasehold improvements over their estimated useful lives, using the straight line method, at the rate of 5% per annum.

Depreciation is provided to write off the valuation of property, plant and equipment other than buildings and leasehold improvements over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	25%
Moulds	$33^1/_3$%
Plant and machinery	20%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated on the same basis as owned assets or, where shorter, over the period of the relevant lease.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of impairment loss is treated as a revaluation increase under that accounting standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Pension

The Group operates a funded defined benefit scheme (the "Defined Benefit Scheme"), the assets of which are held in a separate insurer-administered fund. The expected costs of providing pension relating to the employees' current and past services, as calculated periodically by a professionally qualified actuary, were charged to the income statement so as to spread the pension costs over the service lives of employees in the Defined Benefit Scheme in such a way that the cost was substantially at a level percentage of both current and expected future pensionable payroll.

In December 2000, the Group's employees of Hong Kong subsidiaries have been enrolled into a Mandatory Provident Fund Scheme ("MPF Scheme"). The contributions payable in respect of the MPF Scheme are charged as an expense as they fall due.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

No business segment analysis is provided as all of the Company's turnover and contribution to results were derived from the manufacture and sales of handbags and luggage for the year.

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		**Contribution to profit from operations**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
United States of America	**493,197**	502,819	**58,581**	59,406
Europe	**172,637**	144,053	**20,506**	17,020
Hong Kong	**18,279**	27,310	**3,507**	5,125
South America	**6,753**	5,223	**802**	617
Japan	**6,659**	13,043	**791**	1,541
Others	**6,266**	1,473	**744**	172
	703,791	693,921	**84,931**	83,881
Interest income			**1,704**	3,222
Finance costs			**(934)**	(1,205)
Profit before taxation			**85,701**	85,898
Taxation			**(6,635)**	(7,298)
Profit attributable to shareholders			**79,066**	78,600

Since the goods sold to various geographical markets were produced from the same production facilities, analysis of assets and liabilities by geographical market is not presented.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
People's Republic of China (the "PRC")	**177,069**	119,548	**5,386**	3,652
Hong Kong	**99,973**	196,175	**637**	706
United States of America	**28,695**	15,870	**1,450**	238
Thailand	**4,745**	5,693	**2**	17
	310,482	337,286	**7,475**	4,613

4. PROFIT FROM OPERATIONS

	2002	2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 5)*	**3,827**	4,224
Other staff costs	**103,604**	97,596
Other pension costs and mandatory provident fund contributions	**880**	1,128
Total staff costs	**108,311**	102,948
Auditors' remuneration	**427**	355
Bad debts written off	**4,158**	–
Deficit arising on revaluation of property, plant and equipment	**773**	–
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	**10,543**	11,942
– held under a finance lease	**–**	20
Listing expenses written off	**4,919**	–
Loss on disposal of property, plant and equipment	**37**	442
and after crediting:		
Interest income	**1,704**	3,222

5. DIRECTORS' EMOLUMENTS

	2002 **HK$'000**	2001 *HK$'000*
Directors' fees:		
Executive	**–**	–
Independent non-executive	**100**	–
Other emoluments of executive directors:		
Salaries and other benefits	**3,621**	3,862
Bonuses	**46**	68
Pension costs and mandatory provident fund contributions	**60**	294
Total directors' emoluments	**3,827**	4,224

The emoluments of the directors were within the following bands:

	2002 **Number of directors**	2001 Number of directors
Up to HK$1,000,000	**9**	9
HK$1,000,001 to HK$1,500,000	**1**	1

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

6. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals include one (2001: one) executive director of the Company, whose emoluments are included in note 5 above. The emoluments of the remaining four (2001: four) highest paid individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**8,335**	7,426

The emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**3**	2
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

7. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Interest on		
– bank borrowings wholly repayable within five years	**934**	1,199
– obligations under a finance lease	**–**	6
	934	1,205

8. TAXATION

	2002	2001
	HK$'000	HK$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	6,615	7,298
Overseas taxation	20	–
	6,635	7,298

A substantial portion of the Group's profits neither arises in, nor is derived from, Hong Kong and therefore is not subject to Hong Kong Profits Tax.

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for both respective year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

In the opinion of the directors, the revaluation of the Group's property, plant and equipment does not constitute a timing difference for tax purpose.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

9. DIVIDENDS

	2002	2001
	HK$'000	HK$'000
Final dividend paid in respect of preceding financial year	59,000	59,000
Interim dividend paid in respect of current financial year	32,250	13,470
	91,250	72,470

No dividend has been paid or declared by the Company since its incorporation. The above dividends represent dividends paid by the subsidiaries to their then shareholders prior to the Group Reorganisation.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK$79,066,000 (2001: HK$78,600,000) and 825,000,000 (2001: 825,000,000) shares on the basis that all shares issued pursuant to the Group Reorganisation had been in issue during the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Buildings under construction HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Plant and machinery HK$'000	Total HK$'000
THE GROUP								
COST OR VALUATION								
At 1 April 2001	91,623	–	6,703	12,332	2,493	253	13,561	126,965
Currency realignment	483	–	5	–	5	–	57	550
Additions	2,371	2,110	1,728	592	305	–	369	7,475
Transfers	2,110	(2,110)	–	–	–	–	–	–
Disposals	–	–	(95)	–	(536)	–	(52)	(683)
Adjustment arising on revaluation	(3,602)	–	(495)	(1,483)	(270)	(41)	(897)	(6,788)
Valuation at 31 March 2002	**92,985**	**–**	**7,846**	**11,441**	**1,997**	**212**	**13,038**	**127,519**
DEPRECIATION AND AMORTISATION								
At 1 April 2001	–	–	–	–	–	–	–	–
Provided for the year	4,588	–	1,512	1,168	559	85	2,631	10,543
Eliminated on revaluation	(4,588)	–	(1,512)	(1,168)	(559)	(85)	(2,631)	(10,543)
At 31 March 2002	–	–	–	–	–	–	–	–
NET BOOK VALUE								
At 31 March 2002	**92,985**	**–**	**7,846**	**11,441**	**1,997**	**212**	**13,038**	**127,519**
At 31 March 2001	91,623	–	6,703	12,332	2,493	253	13,561	126,965

The Group's property, plant and equipment, other than property interests situated in Thailand, were revalued at 31 March 2002 by Sallmanns (Far East) Limited, an independent firm of professional property, plant and machinery valuers, on the basis of fair market value in continued use as part of an on-going business.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's property interests situated in Thailand were revalued at 31 March 2002 by Thai Property Appraisal Vigers (Thailand) Co., Ltd., an independent firm of professional property valuers, on the basis of open market value in existing use.

The net surplus of HK$3,755,000 (2001: deficit of HK$4,296,000) arising on the above revaluation has been dealt with as follows:

(i) a surplus of HK$4,528,000 (2001: deficit of HK$4,296,000) has been credited/charged to the asset revaluation reserve; and

(ii) a deficit of HK$773,000 (2001: nil) has been charged to the consolidated income statement.

If the above property, plant and equipment had not been revalued, they would have been included on a historical cost basis at the following amounts:

	Land and buildings *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Moulds *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
THE GROUP							
Cost	115,782	13,903	17,700	8,571	887	34,899	191,742
Accumulated depreciation and amortisation	(22,767)	(9,717)	(7,055)	(7,867)	(866)	(27,330)	(75,602)
Net book value							
At 31 March 2002	**93,015**	**4,186**	**10,645**	**704**	**21**	**7,569**	**116,140**
At 31 March 2001	92,759	4,054	11,185	953	39	9,511	118,501

	THE GROUP 2002 **HK$'000**	2001 *HK$'000*
The net book value of the Group's property interests comprises:		
Properties		
– freehold in Thailand	**17,850**	16,272
– held under medium-term land use rights in the PRC	**75,135**	75,351
	92,985	91,623

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY
	2002
	HK$'000
Unlisted shares *(Note)*	**215,145**

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the Group Reorganisation.

Details of the Company's principal subsidiaries at 31 March 2002 are set out in note 28.

13. INVENTORIES

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**45,975**	48,848
Work in progress	**22,184**	22,969
Finished goods	**16,327**	17,259
	84,486	89,076

14. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK$63,628,000 (2001: HK$47,238,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Less than 1 month	**52,038**	36,659
1 – 2 months	**9,116**	8,940
2 – 3 months	**1,169**	739
Over 3 months	**1,305**	900
	63,628	47,238

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$46,185,000 (2001: HK$55,402,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Less than 1 month	**37,009**	40,832
1 – 2 months	**8,615**	13,402
2 – 3 months	**501**	648
Over 3 months	**60**	520
	46,185	55,402

16. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent balances due to certain subsidiaries of Lee & Man Holdings Limited ("Lee & Man Holdings") which was a holding company of the Company prior to the Group Reorganisation. As part of the Group Reorganisation, all balances with Lee & Man Holdings and its subsidiaries (other than members of the Group) were set off and the resulting net balance payable was capitalised by the Company by issuing 120,000,000 new shares of HK$0.10 each in the Company. Prior to the capitalisation, all amounts were unsecured, interest free and repayable on demand.

17. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Bank loan	**2,496**	2,340
Trust receipt and import loans	**2,440**	–
Bank overdrafts	**2,619**	2,740
	7,555	5,080

18. SHARE CAPITAL

	Number of ordinary shares	Amount *HK$'000*
Ordinary shares of HK$0.10 each:		
Authorised:		
On incorporation	1,000,000	100
Increase in authorised share capital	4,999,000,000	499,900
At 31 March, 2002	5,000,000,000	500,000
Issued and fully paid:		
Issue of share to subscriber	1	–
Issue of new shares on acquisition of subsidiaries	704,999,999	70,500
Issue of new shares on settlement of debt	120,000,000	12,000
At 31 March, 2002	825,000,000	82,500

The Company was incorporated on 27 July 2001 with an authorised share capital of HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each.

On 22 August 2001, 1 share of HK$0.10 was allotted and issued, for cash at par, to the subscriber.

As part of the Group Reorganisation, the Company became the holding company of the Group on 14 December 2001 by effecting the following changes in share capital:

(i) the Company's authorised share capital was increased from HK$100,000 to HK$500,000,000 by the creation of 4,999,000,000 new ordinary shares of HK$0.10 each in the Company;

(ii) the Company issued 704,999,999 new ordinary shares of HK$0.10 each in the Company, credited as fully paid at par to Lee & Man Holdings as consideration for the acquisition of Lee & Man Development.

Following the above capital changes, the Company's issued capital of HK$70,500,000 divided into 705,000,000 shares of HK$0.10 each were regarded as share capital for the preparation of the consolidated balance sheet at 31 March 2001.

Also as part of the Group Reorganisation, the Company issued a further 120,000,000 new ordinary shares of HK$0.10 each in the Company to Lee & Man Holdings to settle the balance of the amount payable of HK$32,307,578 due by the Company to Lee & Man Holdings.

19. SHARE OPTIONS

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31 March 2002, no option was granted under the scheme.

20. RESERVES

	Share premium	Asset revaluation reserve	Translation reserve	Special reserve	Contributed surplus	Accumulated profits (loss)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
At 1 April 2000	–	15,388	1,991	(67,990)	–	187,141	136,530
Deficit arising on revaluation of property, plant and equipment	–	(4,296)	–	–	–	–	(4,296)
Realised on depreciation of property, plant and equipment	–	(2,159)	–	–	–	2,159	-
Realised on disposal of property, plant and equipment	–	(469)	–	–	–	469	-
Exchange differences arising on translation of financial statements of overseas operations	–	–	(3,447)	–	–	–	(3,447)
Profit attributable to shareholders	–	–	–	–	–	78,600	78,600
Dividends *(note 9)*	–	–	–	–	–	(72,470)	(72,470)
At 31 March 2001	–	8,464	(1,456)	(67,990)	–	195,899	134,917
Premium arising on issue of shares	20,307	–	–	–	–	–	20,307
Surplus arising on revaluation of property, plant and equipment	–	4,528	–	–	–	–	4,528
Realised on depreciation of property, plant and equipment	–	(500)	–	–	–	500	-
Realised on disposal of property, plant and equipment	–	(340)	–	–	–	340	-
Exchange differences arising on translation of financial statements of overseas operations	–	–	482	–	–	–	482
Profit attributable to shareholders	–	–	–	–	–	79,066	79,066
Dividends *(note 9)*	–	–	–	–	–	(91,250)	(91,250)
At 31 March 2002	**20,307**	**12,152**	**(974)**	**(67,990)**	**–**	**184,555**	**148,050**
THE COMPANY							
Premium arising on issue of shares	20,307	–	–	–	–	–	20,307
Reserve arising on acquisition of subsidiaries	–	–	–	–	112,338	–	112,338
Loss attributable to shareholders	–	–	–	–	–	(5,467)	(5,467)
At 31 March 2002	**20,307**	**–**	**–**	**–**	**112,338**	**(5,467)**	**127,178**

20. RESERVES (CONTINUED)

The special reserve of the Group represents:

(i) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation; and

(ii) the special reserve of a subsidiary, Lee & Man Development, and which represents the difference between the nominal value of the share capital issued by Lee & Man Development and the nominal amount of the share capital of subsidiaries acquired by it pursuant to a group reorganisation in 1993.

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation and the nominal value of the Company's shares issued for the acquisition.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated loss which in aggregate amounted to approximately HK$127.2 million as at 31 March 2002. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

21. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002	2001
	HK$'000	*HK$'000*
Profit before taxation	**85,701**	85,898
Interest income	**(1,704)**	(3,222)
Interest on bank borrowings	**934**	1,199
Interest on obligations under a finance lease	**–**	6
Depreciation and amortisation of property, plant and equipment	**10,543**	11,962
Loss on disposal of property, plant and equipment	**37**	442
Bad debts written off	**4,158**	–
Listing expenses written off	**4,919**	–
Deficit arising on revaluation of property, plant and equipment	**773**	–
Decrease (increase) in inventories	**4,590**	(13,766)
Increase in trade and other receivables	**(17,711)**	(16,596)
Increase in bills receivable	**(1,811)**	(1,473)
(Decrease) increase in trade and other payables	**(12,453)**	10,401
Increase in bills payable	**1,282**	–
(Decrease) increase in amounts due to related companies	**(11,077)**	12,459
Net cash inflow from operating activities	**68,181**	87,310

22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term bank loan	**Obligations under a finance lease**
	HK$'000	*HK$'000*
At 1 April 2000	**2,749**	31
New bank loan raised	**2,340**	–
Repayment	**(2,749)**	(31)
At 31 March 2001	**2,340**	–
New bank loan raised	**2,496**	–
Repayment	**(2,340)**	–
At 31 March 2002	**2,496**	–

23. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002	2001
	HK$'000	*HK$'000*
Bank balances and cash	**18,951**	57,035
Trust receipt and import loans	**(2,440)**	–
Bank overdrafts	**(2,619)**	(2,740)
	13,892	54,295

24. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases in respect of		
– land and buildings	**4,035**	3,284
– equipment	**282**	222
	4,317	3,506

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP			
	Land and buildings		Equipment	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	HK$'000	*HK$'000*
Within one year	**3,164**	867	**214**	253
In the second to fifth year inclusive	**7,638**	3,531	**177**	433
Over five years	**–**	824	**–**	–
	10,802	5,222	**391**	686

Operating lease payments represent rentals payable by the Group for office properties and equipment. Leases are negotiated for an average term of five years and fixed for three years for office properties and negotiated for an average term of two years for office equipment. Rentals are based on the terms specified in the lease agreements.

The Company had no operating lease commitments at the balance sheet date.

25. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Export bills discounted with recourse	**3,584**	28,904	**–**	–
Guarantees given to banks in respect of credit facilities extended to				
– subsidiaries	**–**	–	**70,300**	–
– related companies under corporate guarantees *(note 27(I))*	**–**	95,000	**–**	–
– related companies under cross guarantees *(note 27(I))*	**–**	168,000	**–**	–

26. PENSIONS

The Group operates the Defined Benefit Scheme for its qualifying employees employed by member companies of the Defined Benefit Scheme. In December 2000, all existing members of the Defined Benefit Scheme have been enrolled into the MPF Scheme and their accrued benefits have been frozen as at 30 November 2000. The Defined Benefit Scheme is closed to new employees. The assets of both schemes are held separately from those of the member companies in funds under the control of independent insurers.

The Defined Benefit Scheme cost is assessed in accordance with the advice of Mr. Norm Lau of HSBC Life (International) Limited, Fellow of the Society of Actuaries, using the project unit credit cost method. The aim of this method is to maintain a fund equal to the actuarial value of all the benefits deemed to have accrued in respect of service completed at the date of actuarial review by reference to projected final salary at date of termination. The result of the latest independent actuarial assessment of the Defined Benefit Scheme as at 31 March 2001 was set out in an actuarial report dated 5 July 2001.

As at the date of the latest actuarial valuation, the value of the Defined Benefit Scheme's assets was approximately HK$12.9 million and the amount of the past service liabilities was approximately HK$7.0 million of which approximately HK$0.2 million was vested.

26. PENSIONS (CONTINUED)

In accordance with the actuarial funding recommendation of the latest actuarial valuation, the Defined Benefit Scheme's assets will be sufficient to meet the Defined Benefit Scheme's aggregate vested liabilities in each of the following three years. Contribution to the Defined Benefit Scheme has been suspended with effect from 1 April 2001. The date of the next actuarial review should be no later than 31 March 2004.

The retirement benefit cost for the MPF Scheme charged to the income statement represents contributions payable to a fund by the Group at rates specified in the rules of the MPF Scheme.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Related parties, other than connected parties

Lee & Man Holdings was the Company's immediate holding company prior to the Group Reorganisation. On 10 January 2002, Lee & Man Holdings declared a special distribution in specie by distributing all the shares in the Company to the then shareholders of Lee & Man Holdings. Following this distribution in specie, the Company and Lee & Man Holdings became fellow subsidiaries.

During the year and prior to the distribution in specie, the Group had the following transactions with Lee & Man Holdings and its subsidiaries, other than members of the Group (hereinafter collectively referred to as the "Holdings Group"):

		THE GROUP	
Nature of transactions/balance		**2002**	2001
	Notes	**HK$'000**	*HK$'000*
Sales of goods	*(a)*	**482**	–
Sales of property, plant and equipment	*(a)*	**–**	287
Management fee income received	*(b)*	**976**	1,898
Transportation charges paid	*(a)*	**134**	146
Packing materials purchased	*(a)*	**5,215**	9,372
Rental paid	*(a)*	**1,538**	1,545
Balance due to the Holdings Group		**–**	44,196

Notes:

(a) The transactions were carried out at market price.

(b) The transactions were based on the actual cost plus a percentage profit mark-up.

In addition, the Group provided corporate and cross guarantees to the Holdings Group for the year ended 31 March 2001, details of which are set out in note 25.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(II) Connected parties

Subsequent to the distribution in specie, the Holdings Group became a connected party to the Group. Transactions with the Holdings Group subsequent to the distribution in specie are as follows:

	THE GROUP	
Nature of transactions/balance	**2002**	2001
	HK$'000	*HK$'000*
Corrugated cardboard and carton boxes purchased *(note a)*	**1,292**	–
Management fee income received *(note b)*	**360**	–
Licence fee paid *(note c)*	**470**	–
Balance due to the Holdings Group	**812**	–

Notes:

a. The Group has agreed to purchase corrugated cardboard and carton boxes from time to time from the Holdings Group. The purchase prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.

b. Pursuant to the management agreement entered into between the Company and Lee & Man Holdings on 14 December 2001, the Company has agreed to procure its subsidiaries to provide (i) use of office facilities and equipment; (ii) use of transportation facilities; and (iii) management service including administrative and financial services to the Holdings Group for a term of three years commencing 1 January 2002 for a monthly management fee of HK$120,000.

c. Pursuant to two licence agreements entered into between Lee & Man Management Company Limited ("Lee & Man Management"), a wholly-owned subsidiary of the Company and Lee & Man Realty Investment Limited ("Lee & Man Realty"), a wholly-owned subsidiary of Lee & Man Holdings on 14 December 2001, Lee & Man Realty has agreed to grant licences to Lee & Man Management and subsidiaries of the Company to enter into possession of and occupy certain office space of the Holdings Group for a term of three years commencing 1 January 2002 for a total monthly licence fee of HK$156,750.

28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which were wholly-owned by the Company at 31 March 2002, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities #
Lee & Man Development	British Virgin Islands	Shares – US$90	Investment holding
Lee & Man Company Limited	Hong Kong	Ordinary shares – HK$1,000,000 Non-voting deferred shares – HK$1,000,000	Manufacture and sales of handbags and luggage
Lee & Man Handbag Manufacturing Company Limited	Hong Kong	Ordinary shares – HK$10,000 Non-voting deferred shares – HK$500,000	Manufacture and sales of handbags and luggage
Lee & Man Management	Hong Kong	Ordinary shares – HK$2	Provision of management and administration services
Lee & Man Handbag (Thailand) Co., Ltd.	Thailand	Shares – 30,000,000 Baht	Manufacture of handbags and luggage in Thailand

The principal activities are carried out in the PRC and Hong Kong except as otherwise stated under principal activities above.

28. PRINCIPAL SUBSIDIARIES (CONTINUED)

Only Lee & Man Development is directly held by the Company.

The deferred shares practically carry no rights to participate in profits or surplus assets or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Financial Summary

	Year ended 31 March			
	1999	2000	2001	**2002**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS				
Turnover	559,921	599,007	693,921	**703,791**
Profit before taxation	102,422	92,610	85,898	**85,701**
Taxation	(13,728)	(8,608)	(7,298)	**(6,635)**
Profit attributable to shareholders	88,694	84,002	78,600	**79,066**

	At 31 March			
	1999	2000	2001	**2002**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES				
Total assets	295,863	319,218	337,286	**310,482**
Total liabilities	(89,479)	(112,188)	(131,869)	**(79,932)**
Shareholders' funds	206,384	207,030	205,417	**230,550**

Note: The Group Reorganisation referred to in note 1 to the financial statements has been reflected in the financial summary by regarding the Company as having been the holding company of the Group from the earliest period presented.