LEE & MAN HANDBAGS HOLDING LIMITED

理文手袋集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Website: http://www.leemanhandbags.com
(Stock Code: 1488)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

- Revenue decreased by 6.3% to HK$371 million as compared to the last corresponding period.
- Net profit decreased by 11.5% to HK$47 million as compared to the last corresponding period.
- Net profit margin decreased from 13.5% to 12.8%.
- Earnings per share decreased by 12.3% to HK5.7 cents as compared to the last corresponding period.
- Proposed interim dividend of HK 3.0 cents per share.

INTERIM RESULTS

The board of directors (the "Board") of Lee & Man Handbags Holding Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with comparative figures for the last corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	**Six months ended 30 June** **2011** **(Unaudited)** ***HK$'000***	2010 (Unaudited) *HK$'000*
Revenue	*4*	**370,645**	395,412
Cost of sales		**(271,313)**	(281,677)
Gross profit		**99,332**	113,735
Other income		**2,557**	3,880
Selling and distribution costs		**(5,812)**	(11,340)
General and administrative expenses		**(43,289)**	(46,718)
Finance costs		**(782)**	(837)
Profit before taxation		**52,006**	58,720
Income tax expense	*5*	**(4,717)**	(5,261)
Profit for the period	*6*	**47,289**	53,459
Other comprehensive income			
Reversal of deferred tax liability arising on revaluation of property, plant and equipment		**321**	308
Exchange differences arising from translation		**(39)**	485
Other comprehensive income for the period		**282**	793
Total comprehensive income for the period		**47,571**	54,252
Earnings per share (HK cents)	*8*	**5.7**	6.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2011

	Notes	30.06.2011 (Unaudited) HK$'000	31.12.2010 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**121,113**	128,674
Prepaid lease payments		**17,515**	17,760
Investment properties		**26,247**	26,341
Deposit paid for acquisition of property, plant and equipment		**1,790**	1,094
Defined benefit assets		**4,538**	4,538
		171,203	178,407
CURRENT ASSETS			
Inventories	*10*	**109,225**	82,684
Prepaid lease payments		**490**	490
Trade and other receivables	*11*	**164,859**	150,616
Tax recoverable		**1,158**	2,824
Bank balances and cash		**32,200**	56,290
		307,932	292,904
CURRENT LIABILITIES			
Trade and other payables	*12*	**98,778**	123,499
Derivative financial instruments		**-**	530
Amounts due to a related company		**632**	926
Taxation payable		**5,302**	2,481
Bank borrowings – due within 1 year		**109,151**	125,853
		213,863	253,289
NET CURRENT ASSETS		**94,069**	39,615
TOTAL ASSETS LESS CURRENT LIABILITIES		**265,272**	218,022
NON-CURRENT LIABILITIES			
Deferred taxation		**5,733**	6,054
NET ASSETS		**259,539**	211,968
CAPITAL AND RESERVES			
Share capital		**82,500**	1
Reserves		**177,039**	211,967
TOTAL EQUITY		**259,539**	211,968

CONDENSED CONSOLIDATED STATEMENT CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

(unaudited)

	Share Capital	Asset revaluation reserve	Special reserve	Translation reserve	Retained Profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(note)			
At 1 January 2011	**1**	**73,449**	**29,372**	**6,129**	**103,017**	**211,968**
Profit for the period	-	-	-	-	47,289	47,289
Other comprehensive income for the period	-	321	-	(39)		282
Total comprehensive income for the period	-	321	-	(39)	47,289	47,571
Realised on depreciation of property, plant and equipment	-	(3,949)	-	-	3,949	-
Realised on disposal of property, plant and equipment	-	(83)	-	-	83	-
Issue of share capital for acquisition of the subsidiaries	82,499	-	(82,499)	-	-	-
At 30 June 2011	**82,500**	**69,738**	**(53,127)**	**6,090**	**154,338**	**259,539**
At 1 January 2010	1	65,698	29,372	3,468	202,655	301,194
Profit for the period	-	-	-	-	53,459	53,459
Other comprehensive income for the period	-	308	-	485	-	793
Total comprehensive income for the period	-	308	-	485	53,459	54,252
Realised on depreciation of property, plant and equipment	-	(2,867)	-	-	2,867	-
Realised on disposal of property, plant and equipment	-	(23)	-	-	23	-
Dividend paid	-	-	-	-	(163,041)	(163,041)
At 30 June 2010	**1**	**63,116**	**29,372**	**3,953**	**95,963**	**192,405**

note:

The special reserve of the Group represents:

(a) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganization in June 2011and the nominal value of the share capital issued by the Company ;

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

Notes:

1. GENERAL

The Company was incorporated on 4 January 2011 and registered as an exempted company with limited liability in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its place of business in Hong Kong is located at 8/F. Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of handbags.

On 27 June 2011, the Group completed its spin-off with its shares successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction. The Group was controlled by Lee & Man Holding Limited ("LM") before the spin-off, a company incorporated in and registered as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Main board of the Stock Exchange. The Company's ultimate holding company is Full Gold Trading Limited ("Full Gold"), a company incorporated in BVI.

The functional currency of the Company is United States dollars ("US$"). The condensed consolidated financial statements is presented in Hong Kong dollars ("HK$") because the Company's shares are listed on the Stock Exchange and most of its potential investors are located in Hong Kong.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Pursuant to the group reorganization (the "Reorganisation") as explained in the section headed "Reorganisation" in the listing document dated 31 May 2011 issued by the Company in connection with the listing by way of introduction of the entire issued share capital of the Company on the Main Board of the Stock Exchange (the "Listing Document"), which was completed on 22 May 2011, the Company became the holding company of the Group. The shares of the Company are listed on the Stock Exchange on 27 June 2011.

The Group was controlled by LM before the Reorganisation. Accordingly, the interim financial information has been prepared as if the Company had always been the holding company of the Group. The condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months periods ended 30 June 2010 and 2011 have been prepared as if the current group structure had been in existence throughout both periods or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period. The condensed consolidated statements of financial position of the Group as at 31 December 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Listing Document dated 31 May 2011 issued by the Company.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the financial statements contained in the Listing Document except for the adoption of the new standards, amendments or interpretations issued by the HKICPA which are mandatory for the annual periods beginning 1 January 2011. The adoption of these standards, amendments or interpretations has no material effect on the Group's financial position or results of operations.

The Group has not early adopted the new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

4. SEGMENT INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers ("CODMs"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. The CODMs review the Group's profit as a whole, which is generated solely from the manufacture and sale of handbags and determined in accordance with the Group's accounting policies, for performance assessment. Therefore no separate segment information is prepared by the Group.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below :

	Revenue from external customers		Non-current assets (note)	
	Six months ended 30 June		At	
	2011	2010	**30.06.2011**	31.12.2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	9,939	8,341	**1,595**	1,567
PRC	8,884	2,208	**138,787**	145,916
USA	157,829	220,095	**36**	45
Canada	20,649	13,092		-
The Netherlands	26,294	36,757		-
Italy	24,785	25,743		-
The United Kingdom	25,159	24,823		-
Germany	7,660	4,255		-
Other European countries	30,261	14,347		-
South American countries	21,663	13,181		-
Other Asian countries	37,522	32,570	**26,247**	26,341
	370,645	395,412	**166,665**	173,869

note : Non-current assets excluded defined benefit assets.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
The charge comprises :		
Current tax :		
Hong Kong Profits Tax	**4,486**	5,259
Other jurisdictions Income Tax	**231**	2
	4,717	5,261

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

According to the 50:50 onshore/offshore arrangement between the Group and the Inland Revenue Department in Hong Kong, certain profit of the Group is not subject to tax.

PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation. Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Other jurisdiction

Taxation arising in other jurisdictions is calculated at the rates prevailing in relevant jurisdictions.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Directors' emoluments	**348**	-
Other staff costs	**104,371**	90,740
Retirement benefit schemes contributions (excluding directors)	**501**	462
Total staff costs	**105,220**	91,202
Amortisation of prepaid lease payments	**245**	245
Cost of inventories recognised as expenses	**271,313**	281,677
Depreciation of property, plant and equipment	**9,197**	7,997
Loss on disposal of property, plant and equipment	**66**	23
Net exchange loss	**2,161**	4,200
Net exchange loss on derivative financial instruments	**494**	-
and after crediting:		
Interest income	**31**	21
Gain on fair value on derivative financial instruments	**-**	1,751

7. DIVIDENDS

The Board has declared that an interim dividend of HK3.0 cents (2010: Nil) per share for the six months ended 30 June 2011 to shareholders whose names appear in the Register of Members on 17 August 2011.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the periods is based on the following data:

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period for the purpose of basic earnings per share	**47,289**	53,459
Number of ordinary shares for the purpose of basic earnings per share	**825,000,000**	825,000,000

The number of shares for calculating basic earnings per share for both periods is determined on the assumption that the Reorganisation has been effective during the periods.No diluted earnings per share are presented as there were no dilutive ordinary shares in issue during the periods.

9. ADDITIONS TO PROPERTY , PLANT & EQUIPMENT

During the period, the Group spent HK$1.8million (2010 : 5.6 million) on property, plant and equipment.

10. INVENTORIES

	At 30.06.2011	At 31.12.2010
	HK$'000	*HK$'000*
Raw materials	**50,021**	34,940
Work in progress	**43,409**	37,209
Finished goods	**15,795**	10,535
	109,225	82,684

All inventories were carried at cost at the end of the reporting period.

11. TRADE AND OTHER RECEIVABLES

The Group generally allows its trade customers an average credit period ranged from 14 to 90 days.

Included in the balance are trade and bills receivables of HK$159,619,000 (31.12.2010: HK$143,815,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2011	At 31.12.2010
	HK$'000	*HK$'000*
Less than 30 days	**72,894**	110,755
31 – 60 days	**68,161**	25,619
61 – 90 days	**12,345**	4,317
Over 90 days	**6,219**	3,124
	159,619	143,815
Prepayment and deposits	**4,375**	5,810
Other receivables	**865**	991
	164,859	150,616

12. TRADE AND OTHER PAYABLES

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period obtained for trade purchases is 30 to 90 days.

Included in trade and other payables are trade and bills payables of HK$70,745,000 (31.12.2010: HK$86,014,000). The aged analysis of trade and bills payables at the end of the reporting period is as follows:

	At 30.06.2011	At 31.12.2010
	HK$'000	*HK$'000*
Less than 30 days	**44,049**	26,583
31 – 60 days	**16,187**	30,969
61 – 90 days	**6,945**	25,765
Over 90 days	**3,564**	2,697
	70,745	86,014
Other payables and accruals	**28,033**	37,485
	98,778	123,499

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.0 cents per share for the six months ended 30 June 2011 to shareholders whose names appear on the Register of Members on 17 August 2011. It is expected that the interim dividend will be paid around 31 August 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 12 August 2011 to 17 August 2011, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on 11 August 2011.

BUSINESS REVIEW

On 27 June 2011, the Group completed its spin-off with its shares successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited by way of introduction. The spin-off not only enabled the management team of the Group to focus on the development of handbag business, but also provided investors with a clearer and an independent view on the operating and financial position of the handbag business.

For the six months ended 30 June 2011, the Group recorded a revenue of HK$371 million, slightly decreased by 6.3% over the same period last year; and a net profit for the period of HK$47 million, decreased by approximately 11.5% over the same period last year. Gross profit margin and net profit margin were 26.8% and 12.8%, representing a decrease of 2 percentage points and 0.7 percentage point respectively as compared to the last corresponding period.

Although the external economy as a whole was seriously affected by the factors of the sluggish performance of the European and USA market, the lingering European sovereign debt crisis and the catastrophic earthquake in Japan, the Group, leveraging on the unrelenting efforts made by the management to strengthen the development of mid-high end products, only recorded a slight decrease of 6.3% in revenue for the period. As to the production cost, even in the face of a substantial increase in the wages level in the PRC and surging prices in raw materials, the Group was able to maintain a stable net profit margin through effective and stringent cost control, the implementation of production process optimization project and the improvement of product design.

PROSPECTS

It is expected that the external economy would continue to be affected by the above factors. Also, in view of the severe shortage of labour in the PRC, the surging prices in raw materials and the pressure of Renminbi currency appreciation, it will be full of challenge for the handbag business in the second half of the year. Nevertheless, the Group will strive to diversify its product designs, strengthen the development of high-end products, enhance the production processes, reinforce internal controls and implement tight control over the cost in order to generate stable profit for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2011 was HK$260 million (31.12.2010 : HK$212 million). As at 30 June 2011, the Group had current assets of HK$308 million (31.12.2010 : HK$293 million) and current liabilities of HK$214 million (31.12.2010: HK$253 million). The current ratio was 1.44 as at 30 June 2011 as compared to 1.16 at 31 December 2010.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong. As at 30 June 2011, the Group had outstanding bank borrowings of HK$109 million (31.12.2010: HK$126 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2011, the Group maintained bank balances and cash of HK$32 million (31.12.2010: HK$56 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.33 as at 31 December 2010 to 0.30 as at 30 June 2011.

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

CAPITAL COMMITMENTS

As at 30 June 2011, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment in amount of approximately HK$1 million.

HUMAN RESOURCES

As at 30 June 2011, the Group had a workforce of more than 5,000 people. The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staffs are remunerated based on their work performance, professional experience and prevailing market situation. Remuneration packages comprise salary and bonuses based on individual merits.

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011 except where stated and explained below.

The Group has an Executive Chairman who also acts as the chief executive officer. The Executive Chairman with the assistance of the Group's senior management team oversees and manages the Group's business. Other functions normally undertaken by a chief executive officer of a company are delegated to members of the Group's senior management team. This structure deviates from the code provision of Code that requires the roles of the chairman and the chief executive officer to be separate and not performed by the same individual. The Directors has considered this matter carefully and decided not to adopt the provision. The Directors believe that the current management structure has been effective in facilitating the operation and development of the Group and its business for a considerable period of time and that the necessary checks and balances consistent with sound corporate governance practices are in place. Accordingly, the Directors do not envisage the Group should change its current management structure. However, the Directors will review the management structure from time to time to ensure it continues to meet these objectives.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 30 June 2011.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 28 July 2011

As at the date of this announcement, the Board comprises of 4 executive directors, namely, Ms Wai Siu Kee, Mr Kung Phong, Ms Lee Man Ching and Ms Poon Lai Ming, and 3 independent non-executive directors, namely, Mr Heng Victor Ja Wei, Mr So Wing Keung, and Mr Tsang Hin Man Terence.