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 2014

FINANCIAL HIGHLIGHTS

- Revenue decreased by 2.4% to HK$386 million.

- Net profit decreased by 47.4% to HK$21 million.

- Gross profit margin decreased from 22.7% to 19.5%.

- Net profit margin decreased from 10.1% to 5.5%.

- Earnings per share decreased from HK4.9 cents to HK2.6 cents.

- Declared interim dividend of HK1.0 cent 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 2014 together with comparative figures for the last corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
	Notes	**2014**	2013
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
Revenue	*3*	**386,040**	395,539
Cost of sales		**(310,931)**	(305,716)
Gross profit		**75,109**	89,823
Other income		**2,745**	6,922
Selling and distribution costs		**(13,839)**	(12,861)
General and administrative expenses		**(40,501)**	(40,301)
Finance costs		**(160)**	(165)
Profit before taxation		**23,354**	43,418
Income tax expense	*4*	**(2,257)**	(3,333)
Profit for the period	*5*	**21,097**	40,085
Other comprehensive (expense) income:			
Item that may be subsequently reclassified to profit or loss :			
Exchange differences arising from translation		**(577)**	340
Total comprehensive income for the period		**20,520**	40,425
Earnings per share (HK cents)	*7*	**2.6**	4.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	Notes	**30.06.2014**	31.12.2013
		(Unaudited)	(Audited)
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**55,810**	54,668
Prepaid lease payments		**23,193**	23,577
Investment properties		**27,641**	27,641
Deposits paid for the acquisition of property, plant and equipment		**1,475**	686
Defined benefit assets		**3,886**	3,886
		112,005	110,458
CURRENT ASSETS			
Inventories	*9*	**118,817**	110,280
Prepaid lease payments		**628**	629
Trade and other receivables	*10*	**175,617**	126,367
Derivative financial instruments		**201**	405
Tax recoverable		**711**	2,996
Bank balances and cash		**78,508**	42,683
		374,482	283,360
CURRENT LIABILITIES			
Trade and other payables	*11*	**111,392**	104,047
Amount due to a related company		**286**	263
Tax payable		**347**	2
Bank borrowings		**94,523**	17,329
		206,548	121,641
NET CURRENT ASSETS		**167,934**	161,719
TOTAL ASSETS LESS CURRENT LIABILITIES		**279,939**	272,177
NON-CURRENT LIABILITY			
Deferred tax liability		**128**	511
NET ASSETS		**279,811**	271,666
CAPITAL AND RESERVES			
Share capital		**82,500**	82,500
Reserves		**197,311**	189,166
		279,811	271,666

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Unaudited)

	Share capital	Asset revaluation reserve	Translation reserve	Special reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note i)		*(note ii)*		
At 1 January 2013 (audited)	82,500	6,641	6,208	(38,562)	213,294	270,081
Profit for the period	-	-	-	-	40,085	40,085
Other comprehensive income for the period	-	-	340	-	-	340
Total comprehensive income for the period	-	-	340	-	40,085	40,425
Dividends recognised as distributions	-	-	-	-	(41,250)	(41,250)
At 30 June 2013 (unaudited)	**82,500**	**6,641**	**6,548**	**(38,562)**	**212,129**	**269,256**
At 1 January 2014 (audited)	82,500	6,641	4,928	(38,562)	216,159	271,666
Profit for the period	-	-	-	-	21,097	21,097
Other comprehensive expense for the period	-	-	(577)	-	-	(577)
Total comprehensive (expense) income for the period	-	-	(577)	-	21,097	20,520
Dividend recognised as distributions	-	-	-	-	(12,375)	(12,375)
At 30 June 2014 (unaudited)	**82,500**	**6,641**	**4,351**	**(38,562)**	**224,881**	**279,811**

notes:

(i) The asset revaluation reserve represented increase in revaluation arising from the owner-occupied properties becoming to investment properties prior to 1 January 2008.

(ii) The special reserve of the Group represents:

1. the difference between the nominal value of the share capital issued by Lee & Man Development Limited ("LM Development") and the nominal value of the share capital of subsidiaries acquired by it pursuant to a group reorganisation in 1993.

2. the difference between the nominal value of the share capital of a subsidiary, LM Development, acquired pursuant to a group reorganisation in June 2011 and the nominal value of the share capital issued by the Company; and

3. the expenses borne by shareholder for the listing of the Company.

Notes:

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs and Interpretations in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. 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 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 results and financial position 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 and resources allocation. Therefore no separate segment information is prepared by the Group.

The Group's operations are located in the United States of America ("USA"), the Europe, Hong Kong, and the People's Republic of China ("PRC"). Sales to the largest customer contributed to 12.2% (2013: 15.5%) of the Group's total turnover.

Revenue from customers from sales of handbags of the corresponding period contributing over 10% of the total sales of the Group is as follows:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Customer A	**46,990**	61,158
Customer B	**43,184**	40,743
Customer C	**N/A***	47,368
Customer D	**N/A***	42,673

** The corresponding revenue did not contribute over 10% of the total sales of the Group.*

The Group's investment properties are located in Thailand. The rest of the Group's non-current assets, other than defined benefit assets, are located in the PRC.

The Group's revenue from external customers by geographical location during the period is as follows:

	Revenue from External customers Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**19,157**	23,411
PRC	**21,785**	8,823
USA	**144,242**	160,789
Canada	**15,016**	4,932
The Netherlands	**19,153**	20,725
Italy	**64,759**	74,531
The United Kingdom	**9,871**	9,145
Germany	**8,768**	8,534
Other European countries	**26,005**	26,005
South American countries	**481**	13,359
Other Asian countries	**56,803**	45,285
	386,040	395,539

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
The charge comprises :		
Current tax :		
Hong Kong Profits Tax	**2,285**	3,402
PRC Enterprise Income Tax ("EIT")	**355**	68
	2,640	3,470
Deferred tax – current period	**(383)**	(137)
	2,257	3,333

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 PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Directors' emoluments	**1,430**	1,430
Other staff costs	**123,483**	114,784
Retirement benefit schemes contributions (excluding directors)	**5,531**	3,826
Total staff costs	**130,444**	120,040
Amortisation of prepaid lease payments	**315**	312
Cost of inventories recognised as expenses	**310,931**	305,716
Depreciation of property, plant and equipment	**5,587**	5,261
Net exchange loss	**-**	4,597
and after crediting:		
Interest income	**52**	108
Gain on disposal of property, plant and equipment	**15**	16
Net gain on fair value changes on derivative financial instruments	**13**	740
Net exchange gain	**54**	-

6. DIVIDENDS

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Final dividend paid during the period:		
2013 final dividend HK1.5 cents per share (2012: HK5.0 cents)	**12,375**	41,250
Interim dividend declared subsequent to period end:		
2014 interim dividend HK1.0 cent per share (2013: HK3.5 cents)	**8,250**	28,875

The Board has declared that an interim dividend of HK1.0 cent (2013: HK3.5 cents) per share for the six months ended 30 June 2014 to shareholders whose names appear in the Register of Members on 19 August 2014.

7. 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	
	2014	2013
	HK$'000	*HK$'000*
Profit for the period for the purpose of basic earnings per share	**21,097**	40,085
	Number of Shares	*Number of shares*
Number of ordinary shares for the purpose of basic earnings per share	**825,000,000**	825,000,000

Diluted earnings per share is not presented because there were no dilutive ordinary shares in issue for both periods.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$6.8 million (2013: HK$3.9 million) on property, plant and equipment to expand its operation.

9. INVENTORIES

	At 30.06.2014	At 31.12.2013
	HK$'000	*HK$'000*
Raw materials	**47,356**	43,249
Work in progress	**59,821**	45,244
Finished goods	**11,640**	21,787
	118,817	110,280

10. TRADE AND OTHER RECEIVABLES

The Group generally allows its trade customers an average credit period ranged from 7 to 90 days.

Included in the balance are trade and bills receivables of approximately HK$161,348,000 (31.12.2013: HK$117,929,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2014	At 31.12.2013
	HK$'000	*HK$'000*
Not exceeding 30 days	**84,315**	58,155
31 to 60 days	**57,350**	39,598
61 to 90 days	**18,805**	19,950
Over 90 days	**878**	226
	161,348	117,929
Prepayment and deposits	**13,651**	7,987
Other receivables	**618**	451
	175,617	126,367

11. 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 7 to 60 days.

Included in trade and other payables are trade and bills payables of approximately HK$78,406,000 (31.12.2013: HK$67,701,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2014	At 31.12.2013
	HK$'000	*HK$'000*
Not exceeding 30 days	**54,662**	31,763
31 to 60 days	**14,361**	26,233
61 to 90 days	**3,451**	3,489
Over 90 days	**5,932**	6,216
	78,406	67,701
Other payables and accruals	**32,986**	36,346
	111,392	104,047

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.0 cent per share for the six months ended 30 June 2014 to shareholders whose names appear on the Register of Members on 19 August 2014. It is expected that the interim dividend will be paid around 27 August 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 August 2014 to 19 August 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on 14 August 2014.

BUSINESS REVIEW

For the six months ended 30 June 2014, the Group recorded a revenue of approximately HK$386 million, decreased by 2.4% over the last corresponding period; and a net profit for the period of approximately HK$21 million, decreased by 47.4% over the same period last year. Gross profit margin and net profit margin were 19.5% and 5.5%, representing a reduction of 3.2 and 4.6 percentage points respectively as compared to the last corresponding period.

Due to the slowdown of the growth of the global economy and the keen competition from South East Asia manufacturers, the returns from orders reduced and the Group's profit for the period declined significantly. As to the production cost, even in the face of significant increase in the labour costs in the PRC, the Group maintained its market share and competitiveness in the handbag industry through effective and stringent cost control and the implementation of production process optimisation project.

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 and the surging labour costs, 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 seek for reasonable profit for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2014 was approximately HK$280 million (31.12.2013: HK$272 million). As at 30 June 2014, the Group had current assets of approximately HK$374 million (31.12.2013: HK$283 million) and current liabilities of approximately HK$207 million (31.12.2013: HK$122 million). The current ratio was 1.81 and 2.33 as at 30 June 2014 and 31 December 2013, respectively.

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 2014, the Group had outstanding bank borrowings of approximately HK$95 million (31.12.2013: HK$17 million). These bank loans were secured by corporate guarantees provided by the Company and its subsidiaries. As at 30 June 2014, the Group maintained bank balances and cash of approximately HK$79 million (31.12.2013: HK$43 million). The Group's net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) was 0.06 as at 30 June 2014 and compared to the net cash-to-equity ratio (cash and cash equivalents net of total bank borrowings over shareholders' equity) of 0.09 as at 31 December 2013.

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

CAPITAL COMMITMENTS

As at 30 June 2014, 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 the amount of approximately HK$1.3 million.

EMPLOYEES

As at 30 June 2014, the Group had a workforce of around 4,000 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 2014, 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 Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014 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 2014.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 31 July 2014

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