



LEE & MAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2001**

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. LEE Wan Keung (*Chairman*)
Ms. WAI Siu Kee
Mr. TUNG Cheung Kong
Mr. LU Zhongwen (alias LUI Chung Man)
Ms. POON Lai Ming
Mr. WONG Kai Tung, Tony*
Mr. HENG Kwo Seng*

** Independent non-executive director*

COMPANY SECRETARY

Mr. HUI Yick Kwan

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
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 REGISTRARS

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

HONG KONG BRANCH SHARE REGISTRARS

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

WEBSITE

<http://www.leeman.com.hk>
<http://www.irasia.com/listco/hk/leeman>

INTERIM RESULTS

The board of directors of Lee & Man Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2001 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2001

	<i>Notes</i>	Six months ended 30th September	
		2001 (UNAUDITED) <i>HK\$'000</i>	2000 (UNAUDITED) <i>HK\$'000</i>
Turnover	2	530,195	540,166
Cost of sales		(371,391)	(375,225)
Gross profit		158,804	164,941
Other revenue		12,178	8,514
Distribution costs		(29,592)	(27,965)
Administrative expenses		(56,294)	(57,526)
Profit from operations		85,096	87,964
Finance costs	4	(830)	(1,020)
Profit before taxation		84,266	86,944
Taxation	5	(5,002)	(5,664)
Profit attributable to shareholders		79,264	81,280
Interim dividend		49,500	49,500
Earnings per share (HK cents)	6	9.6	9.9

CONDENSED CONSOLIDATED BALANCE SHEET**At 30th September 2001**

		(UNAUDITED)	
		30th September 2001	31st March 2001
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	335,259	286,891
Deposits for acquisition of property, plant and equipment		—	15,196
		335,259	302,087
CURRENT ASSETS			
Inventories		122,346	155,055
Trade and other receivables	8	154,100	119,709
Bills receivable		8,289	5,977
Taxation receivable		431	—
Bank balances and cash		50,327	61,347
		335,493	342,088
CURRENT LIABILITIES			
Trade and other payables	9	78,586	98,727
Amount due to a related company		13,211	4,626
Taxation payable		3,990	832
Short-term bank borrowings		9,319	6,756
		105,106	110,941
NET CURRENT ASSETS		230,387	231,147
TOTAL ASSETS LESS CURRENT LIABILITIES		565,646	533,234
CAPITAL AND RESERVES			
Share capital	10	82,500	82,500
Reserves	11	433,646	450,734
Proposed interim dividend		49,500	—
		565,646	533,234

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September 2001

	Six months ended 30th September	
	2001	2000
	(UNAUDITED) HK\$'000	(UNAUDITED) HK\$'000
Surplus arising on revaluation of property, plant and equipment	10,795	—
Exchange differences arising from translation of financial statements of overseas operations	103	(302)
Gains (losses) not recognised in the condensed consolidated income statement	10,898	(302)
Net profit for the period	79,264	81,280
Total recognised gains	90,162	80,978

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2001

	Six months ended 30th September	
	2001	2000
	(UNAUDITED) HK\$'000	(UNAUDITED) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	80,969	95,197
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(57,376)	(56,727)
TAX PAID	(2,275)	(2,672)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(34,901)	(5,495)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING	(13,583)	30,303
FINANCING ACTIVITIES		
New bank loan raised	3,744	—
Repayment of bank loan	—	(2,749)
Repayment of obligations under a finance lease and a hire purchase contract	—	(31)
CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	3,744	(2,780)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,839)	27,523
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	56,931	43,130
CASH AND CASH EQUIVALENTS AT END OF PERIOD	47,092	70,653

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September 2001

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim accounts have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

These condensed interim accounts have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipments.

The accounting policies used in the preparation of these condensed interim accounts are consistent with those used in its annual financial statements for the year ended 31st March 2001 except that the Group have changed the accounting policy for dividends declared or proposed after the balance sheet date.

In accordance with the revised SSAP 9 “Events after the Balance Sheet Date” issued by the Hong Kong Society of Accountants and effective for accounting periods beginning on or after 1st January 2001, dividends declared or proposed after the balance sheet date should not be recognised as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated. The effect of this change, resulting in a prior year adjustment which increased shareholders’ funds at 31st March 2001 by HK\$57,750,000.

2. Segmental Information

The Group’s turnover and contribution to operating profit for the six months ended 30th September 2001, analysed by business segments and geographical segments, were as follows:

Business Segments

	Turnover		Segment Result	
	Six months ended 30th September		Six months ended 30th September	
	2001	2000	2001	2000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Manufacture and sales of				
— Handbags	393,438	376,371	61,025	63,107
— Paper packaging products	91,530	121,611	15,226	20,222
— Audio cassette products	45,227	42,184	7,641	2,592
	530,195	540,166	83,892	85,921
Add: Interest Income			374	1,023
Profit before taxation			84,266	86,944

Geographical Segments

	Turnover	
	Six months ended 30th September	
	2001	2000
	HK\$’000	HK\$’000
United States of America	286,297	287,370
Europe	101,169	83,489
People’s Republic of China other than Hong Kong	91,530	121,611
Japan	27,545	23,643
Hong Kong	8,797	17,287
South America	6,425	1,011
Africa	3,231	1,692
Other areas	5,201	4,063
	530,195	540,166

The segment result by individual market is not presented as the segment result from each geographical market as a proportion of turnover from that market is in line with the ratio of operating profit to turnover achieved by the Group.

3. Depreciation and amortisation

During the period, depreciation and amortisation of HK\$12,828,000 (2000: HK\$20,792,000) was charged in respect of the Group's property, plant and equipment.

4. Finance costs

During the period, interest of HK\$830,000 (2000: HK\$1,020,000) was charged in respect of the Group's bank borrowings.

5. Taxation

	Six months ended 30th September	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period	4,980	5,410
Overseas taxation	22	254
	5,002	5,664

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

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

6. Earnings per share

The calculation of the earnings per share is based on the unaudited profit attributable to shareholders of HK\$79,264,000 (2000: HK\$81,280,000) and on the 825,000,000 (2000: 825,000,000) shares in issue during the period.

7. Additions to property, plant and equipment

During the period, the Group spent HK\$50,469,000 (six months ended 30th September 2000: HK\$5,714,000) on property, plant and equipment to expand its operations.

8. Trade and other receivables

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

The trade and other receivables included trade receivables balance of HK\$137,169,000 (31st March 2001: HK\$106,258,000). The aging analysis of trade receivables was as follows:

	30th September 2001 <i>HK\$'000</i>	31st March 2001 <i>HK\$'000</i>
Less than 1 month	61,595	57,892
1-2 months	47,346	25,622
2-3 months	16,295	9,158
Over 3 months	11,933	13,586
Total	137,169	106,258

9. Trade and other payables

Including in trade and other payables are trade payables of HK\$44,082,000 (31st March 2001: HK\$64,422,000). The aging analysis of trade payables was as follows:

	30th September 2001	31st March 2001
	HK\$'000	HK\$'000
Less than 1 month	30,436	46,623
1-2 months	12,370	16,067
2-3 months	1,158	1,190
Over 3 months	118	542
Total	44,082	64,422

10. Share capital

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

11. Reserves

	Share Premium	Asset revaluation reserve	Translation reserve	Capital reserve	Special reserve	Retained Profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
At 1st April 2001 as previously reported	136,694	32,714	(1,456)	2,503	(64,980)	287,509	392,984
Effect of adopting revised SSAP 9 (Note1)	—	—	—	—	—	57,750	57,750
At 1st April 2001 as restated	136,694	32,714	(1,456)	2,503	(64,980)	345,259	450,734
2001 Final dividend paid	—	—	—	—	—	(57,750)	(57,750)
Surplus arising on revaluation of property, plant and equipment	—	10,795	—	—	—	—	10,795
Realised on depreciation of property, plant and equipment	—	(2,561)	—	—	—	2,561	—
Realised on disposal of property, plant and equipment	—	(122)	—	—	—	122	—
Exchange difference arising from translation of overseas subsidiaries' financial statements	—	—	103	—	—	—	103
Profit attributable to shareholders	—	—	—	—	—	79,264	79,264
2002 Interim dividend proposed	—	—	—	—	—	(49,500)	(49,500)
At 30th September, 2001	136,694	40,826	(1,353)	2,503	(64,980)	319,956	433,646

12. Contingent liabilities

	30th September 2001	31st March 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Export bills discounted with recourse	3,363	29,098

13. Capital commitments

	30th September 2001	31st March 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	3,397	22,629

14. Connected transactions

Below is a summary of significant connected transactions during the period with Lee & Man Industries Company Limited which is wholly owned by the controlling shareholder of the Company. Such transactions were approved in an extraordinary general meeting of the Company held on 20th August 2001 and were carried out in the normal course of business:

	Six months ended 30th September	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials purchased	21,700	11,050
Waste paper by-products sold	1,688	1,859
Steam purchased	780	780
License fee received	337	306

15. Comparative figures

Due to the adoption of certain SSAP during the current period, certain comparative figures have been reclassified to conform with the current period's presentation.

16. Review of Interim Accounts

The condensed interim accounts are unaudited, but have been reviewed by the Audit Committee.

INTERIM DIVIDEND

The directors have declared an interim dividend of HK6.0 cents (2000: HK 6.0 cents) per share for the six months ended 30th September 2001 to shareholders whose names appear on the Register of Members on 30th November 2001. It is expected that the interim dividend will be paid around 7th December 2001.

CLOSURE OF REGISTER

The Register of Members will be closed from 28th November 2001 to 30th November 2001, both days inclusive, during which period no transfer of shares 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, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, for registration no later than 4:00 p.m. on 27th November 2001.

BUSINESS REVIEW

During the period under review, the Group's profit attributable to shareholders amounted to HK\$79 million, representing a decrease of 2.5% as compared to HK\$81 million in the corresponding period last year. Turnover for the Group decreased from HK\$540 million to HK\$530 million, representing a decrease of 1.8% over the corresponding period last year.

Handbag Business

During the period under review, turnover for the handbag business rose by 4.5% to HK\$393 million, accounted for 74.2% of the Group's total turnover, contributed an operating profit of HK\$61 million which is decreased by 3.3% over the corresponding period of last year.

The drop of net profit was mainly attributable to the keen competition in our major markets. However, the Group still recorded a slight growth in turnover due to the increase in sales of originally designed products. Given the current stagnant market conditions, the Group considers the performance satisfactory.

The U.S. market is the largest market of the Group's handbag business. The U.S. economy is currently experiencing a slowdown with weak consumer spending especially after the recent terrorist attacks of the World Trade Centre in the U.S. Although the Group is not aware of any significant impact on the current orders on hand, the Directors expect that it may have a negative impact on the business and profitability of the Group in the coming year. To maintain the market share, the Group will continue to place its resources in the design and products development and to further strengthen its cost control.

As stated in the published circular of 10th October 2001, the Group has made a submission to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to spin off of its handbag business for a separate listing on the Main Board of the Stock Exchange (the "Spin-off"). However, the Directors would like to emphasize that the Spin-off is at a preliminary stage and specific terms and timing of the Spin-off have yet to be finalized. The Spin-off is also subject to, amongst other things, approval from the Stock Exchange. There is no assurance that the Group will proceed with the Spin-off.

Paper Packaging Business

During the period under review, turnover and the operating profit for the paper packaging business were HK\$92 million and HK\$15 million as compared to HK\$122 million and HK\$20 million respectively for the corresponding period last year, representing both a decrease in turnover and operating profit of around 24.7%. It accounted for 17.3% of the Group's total turnover. The decline in turnover and operating profit were mainly due to the fact that the price of the corrugated packaging products have dropped more than 20% as compared to the corresponding period last year.

Given the fierce competition in the paper packaging business in the People's Republic of China (the "PRC"), the Group is still able to maintain its profit margin rate by means of continued cost rationalization as well as to secure a steady and timely supply of raw paper at a competitive price through its strategic alliance with a connected paper manufacturing company which is located next to its production plant in Huangyong Industrial Park.

In the short term, the Group envisages that the contributions from the paper packaging business would continuously under severe pressure. To capitalize on the business opportunities that will be arisen from time to time, the Group will continue to strengthen its market position by providing excellent services and quality corrugated packaging products to its customers at a competitive price.

Audio Cassette Business

During the period under review, turnover rose by 7.2% to HK\$45 million, representing 8.5% of the Group's total turnover. The operating profit increased by 294.8% to HK\$8 million as compared to the corresponding period last year.

The increase in turnover was mainly due to the increasing orders placed by international brand name customers. Additionally, the Group is able to minimize its overall cost position through scale economics and continued cost rationalization.

In the absence of the new entrants to the audio cassette business, the Group expects that it will continue to generate a stable profit contribution.

Outlook

The current economic downturn is likely to persist in the near term and our businesses would continuously under severe pressure. To weather the current unfavorable market condition, the Group will continue to strengthen its market position and to remain competitiveness by means of cost rationalization so as to position ourselves as one of the leaders in all the respective businesses.

With the Group's strong cash flow and zero gearing ratio and our invaluable experience in all the respective businesses, the Group is confident to face every challenge positively for the continue growth in all its businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30th September 2001 was HK\$530 million and HK\$79 million, as compared to HK\$540 million and HK\$81 million for the corresponding period last year. The earnings per share for the period was HK\$9.6 cents when compared with HK\$9.9 cents for the corresponding period last year.

Capital structure and liquidity

The total shareholders' fund of the Group as at 30th September 2001 was HK\$566 million (31st March 2001: HK\$533 million).

The Group maintains a very strong financial position with a very low level of debts and a high liquidity. As at 30th September 2001, the Group had a current ratio of 3.2 (31st March 2001: 3.1) and zero gearing ratio (expressed as a percentage of long term bank borrowings over shareholders' funds and long term bank borrowings).

The Group had a net cash surplus of HK\$47 million (six month ended 30th September 2000: HK\$71 million) and most of the cash balance was deposited in the leading banks in Hong Kong.

Net cash inflow provided by operating activities totaled HK\$81 million (six months ended 30th September 2000: HK\$95 million). The consistent strong cash flow from operating activities reflects the Group's strength in the working capital management to support the business operations.

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 directors believe that it has minimal exposure to foreign exchange risk.

Employees

The Group had a workforce of approximately 7,000 people. Salaries of employees are maintained at competitive level. Staff performance is reviewed at least annually and remuneration is performance driven. The Group maintains a good relationship with its employees.

DIRECTORS' INTERESTS IN SECURITIES

At 30th September 2001, the interests of directors and their associates in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Lee Wan Keung	—	—	—	609,750,000 (Note)
Wai Siu Kee	—	—	—	609,750,000 (Note)
Tung Cheung Kong	6,000,000	—	—	—
Lu Zhongwen (alias Lui Chung Man)	2,000,000	—	—	—
Poon Lai Ming	1,000,000	—	—	—
Wong Kai Tung, Tony	—	—	—	—
Heng Kwo Seng	—	—	—	—

Note: 609,750,000 ordinary shares were held by Fortune Star Tradings Limited, a company wholly-owned by Centre Trustees (C.I.) 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 certain nominee shares in the subsidiaries held by Mr. Lee Wan Keung in trust for the Group, at 30th September 2001, 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 defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or its holding company or any of its fellow subsidiaries and 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.

A share option scheme was adopted by the Company on 12th May 1997, under which the directors of the Company may be granted options to subscribe for shares in the Company. No option was granted to any of the directors or employees of the Company or its subsidiaries during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th September 2001, 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 has not been notified of any interest representing 10 per cent or more of the issued share capital of the Company.

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 during the six months ended 30th September 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30th September 2001.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part, in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities by the Stock Exchange at any time during the six months ended 30th September 2001.

On behalf of the Board
Lee Wan Keung
Chairman

Hong Kong, 12th November 2001