

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. WAI Siu Kee (*Chairman*)
Mr. LEE Wan Keung
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 Kwo 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 REGISTRARS

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 REGISTRARS

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

WEBSITE

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

INTERIM RESULTS

The board of directors of Lee & Man Handbag International 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 30 September 2002 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

	<i>Notes</i>	Six months ended	
		2002	2001
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	2	489,603	393,585
Cost of sales		(309,636)	(271,510)
Gross profit		179,967	122,075
Other revenue		6,805	7,882
Distribution costs		(56,720)	(23,975)
Administrative expenses		(47,979)	(43,572)
Profit from operations	3	82,073	62,410
Finance costs	4	(279)	(762)
Profit before taxation		81,794	61,648
Taxation	5	(7,962)	(4,910)
Profit attributable to shareholders		73,832	56,738
Interim dividend		24,750	32,250
Earnings per share (HK cents)	6	8.9	6.9

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2002

	<i>Notes</i>	30 September 2002 (UNAUDITED) HK\$'000	31 March 2002 (AUDITED) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	123,839	127,519
CURRENT ASSETS			
Inventories		79,817	84,486
Trade and other receivables	8	111,231	71,560
Bills receivable		41,109	7,788
Taxation recoverable		–	178
Bank balances and cash		64,224	18,951
		296,381	182,963
CURRENT LIABILITIES			
Trade and other payables	9	96,689	69,135
Bills payable		–	1,282
Amount due to a related company		1,267	812
Taxation payable		7,280	1,148
Short-term bank borrowings		10,674	7,555
		115,910	79,932
NET CURRENT ASSETS		180,471	103,031
		304,310	230,550
CAPITAL AND RESERVES			
Share capital	10	82,500	82,500
Reserves		197,060	148,050
Proposed interim dividend		24,750	–
		304,310	230,550

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2002

	Six months ended 30 September	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
Net cash generated from (used in) operating activities	45,401	(22,030)
Tax paid	(1,652)	(2,150)
Net cash used in investing activities	(1,595)	(2,935)
Net cash (used in) generated from financing activities	(936)	3,744
Net increase (decrease) in cash and cash equivalents	41,218	(23,371)
Cash and cash equivalents at beginning of the period	13,892	54,295
Cash and cash equivalents at end of the period	55,110	30,924
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	64,224	33,965
Bank overdrafts	(9,114)	(3,041)
	55,110	30,924

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2002

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2002	82,500	20,307	12,152	(974)	(67,990)	184,555	230,550
Realised on depreciation of property, plant and equipment	–	–	(228)	–	–	177	(51)
Exchange difference arising from translation of financial statements of overseas operations	–	–	–	(21)	–	–	(21)
Profit attributable to shareholders	–	–	–	–	–	73,832	73,832
At 30 September 2002	82,500	20,307	11,924	(995)	(67,990)	258,564	304,310
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2001	70,500	–	8,464	(1,456)	(67,990)	195,899	205,417
Issue of new shares as part of the Group Reorganisation	12,000	–	–	–	–	–	12,000
Premium arising on issue of new shares	–	20,307	–	–	–	–	20,307
Surplus arising on revaluation of property, plant and equipment	–	–	5,495	–	–	–	5,495
Realised on depreciation of property, plant and equipment	–	–	(261)	–	–	261	–
Realised on disposal of property, plant and equipment	–	–	(122)	–	–	122	–
Exchange difference arising from translation of financial statements of overseas operations	–	–	–	154	–	–	154
Profit attributable to shareholders	–	–	–	–	–	56,738	56,738
Final dividend paid for the preceding year	–	–	–	–	–	(59,000)	(59,000)
Interim dividend paid for the current year	–	–	–	–	–	(32,250)	(32,250)
At 30 September 2001	82,500	20,307	13,576	(1,302)	(67,990)	161,770	208,861

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. Basis of preparation and principal accounting policies

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 the Hong Kong Limited (the “Stock Exchange”) on 16 January 2002, 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. Details of the Group Reorganisation are set out in the introduction document issued by the Company dated 21 December 2001.

The Group Reorganisation is accounted for using merger accounting in accordance with the Statement of Standard Accounting Practice (“SSAP”) 27 “Accounting for group reconstructions”, issued by the Hong Kong Society of Accountants (“HKSA”). The condensed consolidated financial statements for the six months ended 30 September 2001 and the year ended 31 March 2002 are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 (revised) “Interim Financial Reporting”, under the historical cost convention, as modified for the revaluation of property, plant and equipment.

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2002, except for those changes as a result of adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of the new and revised SSAPs do not have any material impact to the financial results of the Group for the current or prior accounting periods.

2. Segmental Information

Business Segments

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

Geographical Segments

	Sales revenue by geographical market		Contribution to profit from operations	
	Six months ended 30 September		Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States of America	368,785	272,436	61,589	42,013
Europe	103,623	100,058	17,306	15,431
South America	6,450	3,366	1,077	519
Hong Kong	4,125	7,614	731	1,796
Japan	3,383	5,959	565	919
Others	3,237	4,152	540	640
	489,603	393,585	81,808	61,318
Interest income			265	1,092
Finance costs			(279)	(762)
Profit before taxation			81,794	61,648
Taxation			(7,962)	(4,910)
Profit attributable to shareholders			73,832	56,738

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. Profit from operations

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs (including directors' remuneration)	74,504	55,808
Bad debts written off	2	1
Deficit arising on revaluation of property, plant and equipment	–	143
Depreciation and amortisation of property, plant and equipment	5,252	5,018
Loss on disposal of property, plant and equipment	2	–
and after crediting:		
Interest income	265	1,092
Surplus arising on revaluation of property, plant and equipment	51	–

4. Finance costs

During the period, interest of HK\$279,000 (six months ended 30 September 2001: HK\$762,000) was charged in respect of the Group's bank borrowings.

5. Taxation

The charge represents Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period.

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 basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$73,832,000 (2001: HK\$56,738,000) 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 period.

7. Additions to property, plant and equipment

During the period, the Group spent HK\$1,604,000 (six months ended 30 September 2001: HK\$3,307,000) 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.

Included in trade and other receivables are trade receivables of approximately HK\$88,465,000 (31 March 2002: HK\$63,628,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	30 September 2002 <i>HK\$'000</i>	31 March 2002 <i>HK\$'000</i>
Less than 1 month	56,974	52,038
1 – 2 months	27,224	9,116
2 – 3 months	2,742	1,169
Over 3 months	1,525	1,305
Total	88,465	63,628

9. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$48,507,000 (31 March 2002: HK\$46,185,000). The aged analysis of trade payables at the balance sheet date is as follows:

	30 September 2002 <i>HK\$'000</i>	31 March 2002 <i>HK\$'000</i>
Less than 1 month	33,396	37,009
1 – 2 months	14,045	8,615
2 – 3 months	812	501
Over 3 months	254	60
Total	48,507	46,185

10. 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 30 September 2002 and 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 30 September 2002 and 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 Limited ("Lee & Man Holdings") as consideration for the acquisition of Lee & Man Development.

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.

Following the above capital changes, the Company's issued capital of HK\$82,500,000 divided into 825,000,000 shares of HK\$0.10 each were regarded as share capital for the preparation of the consolidated balance sheet at 31 March 2002.

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

11. Contingent liabilities

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Export bills discounted with recourse	1,627	3,584

12. Capital commitments

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	594	–

13. Related party transactions

The Group had material transactions with the related parties during the period as follows:

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Nature of transactions:		
Corrugated cardboard and carton boxes purchased (<i>Note a</i>)	3,805	3,975
Management fee income received (<i>Note b</i>)	720	616
Licence fee paid (<i>Note c</i>)	941	987

Notes:

- a. The Group has agreed to purchase corrugated cardboard and carton boxes from time to time from Lee & Man Industrial Manufacturing Limited, a fellow subsidiary of the Company. The purchase price was negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.
- b. The Group has agreed to procure its subsidiaries to provide (i) use of office facilities and equipment; (ii) use of transportation facilities; and (iii) management services including administrative and financial services to the two fellow subsidiaries of the Company, Lee & Man Paper Products Company Limited and Lee And Man Manufacturing Company Limited, for a monthly management fee on a cost basis.
- c. Pursuant to two licence agreements entered into between Lee & Man Management Company Limited (“Lee & Man Management”) and Lee & Man Realty Investment Limited (“Lee & Man Realty”), a fellow subsidiary of the Company, Lee & Man Realty has agreed to grant a licence to Lee & Man Management and subsidiaries of the Company to enter into possession of and occupy certain office space of Lee & Man Realty for a term of three years commencing 1 January 2002 for a total monthly licence fee of HK\$156,750.

14. Events after the balance sheet date

On 20 November 2002, the Company has entered into a sale and purchase agreement with Fortune Star Tradings Ltd. (“Fortune Star”), pursuant to which the Company conditionally agreed to acquire from Fortune Star the entire issued share capital of Lee & Man Paper International Limited (“LMPI”) and the shareholder loan due from LMPI to Fortune Star at completion of the acquisition. Details of the acquisition are set out in the announcement issued by the Company dated 20 November 2002.

15. Comparative figures

Due to the adoption of certain SSAPs 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 financial statements are unaudited, but have been reviewed by the Audit Committee.

INTERIM DIVIDEND

The directors have declared an interim dividend of HK3.0 cents per share for the six months ended 30 September 2002 to shareholders whose names appear on the Register of Members on 6 December 2002. It is expected that the interim dividend will be paid around 11 December 2002.

The interim dividend for the six months ended 30 September 2001 represents dividends paid by the subsidiaries to their then shareholders prior to the Group Reorganisation.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 5 December 2002 to 6 December 2002, 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 4 December 2002.

BUSINESS REVIEW

For the six months ended 30 September 2002, the Group's profit attributable to shareholders amounted to HK\$74 million, representing an increase of approximately 30.1% as compared to HK\$57 million in the corresponding period last year. Turnover for the Group increased from HK\$394 million to HK\$490 million, representing an increase of 24.4% over the corresponding period last year.

The U.S. market continued to be the largest market of the Group, accounting for 75.3% of turnover and recorded an increase of 35.4% of sales compared to the same period last year. The European market recorded a moderate increase of 3.6% of sales and it accounted for 21.2% of the turnover of the Group.

The Group remained its strategic focus on the design and development capabilities, the enhancement of the quality of the management staff and the continuous improvements of the production plant have started to pay off, the Group has increased its productivity and become more diversified in the customer and product base in its major geographical markets. As a result, the Group achieved a very satisfactory result for the period under review.

The environment of the handbag industry has becoming more and more competitive, the Group will formulate its strategies in respond to the changing market environment aiming to deliver high quality and competitively-priced handbag products to our global customers.

Outlook

Despite the Group performed well in exploring the markets, in developing new products and controlling cost, the possible slowdown of the U.S. and the European market in the coming years may affect the growth of the Group's handbag business. The Group will seek out further investment opportunities in the People's Republic of China (the "PRC") to capture the growth potential of the PRC market. With the Group's strong financial position, it will be in a well position to capitalise on the investment opportunities that will be arisen from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30 September 2002 was HK\$490 million and HK\$74 million, as compared to HK\$394 million and HK\$57 million for the corresponding period last year. The earnings per share for the period was HK8.9 cents when compared with HK 6.9 cents for the corresponding period last year.

Capital structure and liquidity

The total shareholders' fund of the Group as at 30 September 2002 was HK\$304 million (31 March 2002: HK\$231 million).

The Group maintains a very strong financial position with a very low level of debts and a high liquidity. As at 30 September 2002, the Group had a current ratio of 2.6 (31 March 2002: 2.3) 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\$55 million (31 March 2002: HK\$14 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\$45 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 more than 5,000 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 30 September 2002, 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 Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of ordinary shares in the Company held			
	Personal interest	Family interest	Corporate interest	Other interest
Wai Siu Kee	—	—	—	609,750,000 (Note)
Lee Wan Keung	—	—	—	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 Kwo Seng	—	—	—	—
Lee Ming Cheong, Alfred	—	—	—	—
Wan Chi Keung, Aaron	—	—	—	—

Note: 609,750,000 ordinary shares in the Company were held by Fortune Star Tradings Ltd., a company wholly-owned by Newcourt Trustees Limited as trustee for The Fortune Star 1992 Trust, a discretionary trust 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 30 September 2002 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 14 December 2001, 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 30 September 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 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 30 September 2002.

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 Group's unaudited interim financial statements for the six months ended 30 September 2002.

COMPLIANCE WITH 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 30 September 2002.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 20 November 2002