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 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased by 13.5% to HK$283 million.

- Net profit decreased by 75.6% to HK$1.51 million.

- Net profit margin decreased from 1.9% to 0.5%.

- Earnings per share decreased from HK0.7 cents to HK0.2 cents.

CONFIRMATION FROM THE INDEPENDENT FINANCIAL ADVISER

Dakin Capital Limited has confirmed that, after taking into account the interim results of the Group for the period ended 30 June 2016, its opinion as set out in the “Letter from the Independent Financial Adviser” in the Composite Document remains the same.

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 2016 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 2016

		Six months ended 30 June	
	Notes	**2016**	2015
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
Revenue	*3*	**283,254**	327,481
Cost of sales		**(187,561)**	(234,671)
Gross profit		**95,693**	92,810
Other income	*4*	**5,228**	1,888
Other gains and losses	*5*	**3,873**	(288)
Selling and distribution costs		**(34,101)**	(24,313)
General and administrative expenses		**(62,718)**	(60,330)
Finance costs		**(3,243)**	(221)
Profit before taxation		**4,732**	9,546
Income tax expense	*6*	**(3,226)**	(3,374)
Profit for the period	*7*	**1,506**	6,172
Other comprehensive income:			
Item that may be subsequently reclassified to profit or loss :			
Exchange differences arising from translation		**1,753**	25
Total comprehensive income for the period		**3,259**	6,197
Earnings per share (HK cents)	*9*	**0.2**	0.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

	Notes	**30.06.2016 (Unaudited)** *HK$'000*	31.12.2015 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**92,689**	61,863
Prepaid lease payments		**37,433**	33,856
Investment properties		**30,223**	29,816
Other asset		**395**	395
Deposits paid for the acquisition of property, plant and equipment		**163**	2,354
Defined benefit assets		**4,697**	4,697
Deferred tax asset		**2,890**	2,921
		168,490	135,902
CURRENT ASSETS			
Inventories	*11*	**65,623**	73,508
Prepaid lease payments		**1,418**	864
Trade and other receivables	*12*	**102,887**	99,202
Tax recoverable		**3,552**	907
Bank balances and cash		**278,877**	308,576
		452,357	483,057
CURRENT LIABILITIES			
Trade and other payables	*13*	**69,174**	69,954
Amount due to a director		**1,083**	1,371
Amount due to a related company		**122**	152
Derivative financial instrument		**40**	1,284
Tax payable		**3,024**	2,053
		73,443	74,814
NET CURRENT ASSETS		**378,914**	408,243
TOTAL ASSETS LESS CURRENT LIABILITIES		**547,404**	544,145
NON-CURRENT LIABILITY			
Loan from a director		**260,000**	260,000
NET ASSETS		**287,404**	284,145
CAPITAL AND RESERVES			
Share capital	*14*	**82,500**	82,500
Reserves		**204,904**	201,645
		287,404	284,145

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016 (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 2015 (audited)	82,500	6,641	4,121	(38,562)	229,378	284,078
Profit for the period	-	-	-	-	6,172	6,172
Other comprehensive income for the period	-	-	25	-	-	25
Total comprehensive income for the period	-	-	25	-	6172	6,197
Dividends recognised as distributions	-	-	-	-	(8,250)	(8,250)
At 30 June 2015 (unaudited)	82,500	6,641	4,146	(38,562)	227,300	282,025
At 1 January 2016 (audited)	82,500	6,641	2,145	(38,562)	231,421	284,145
Profit for the period	-	-	-	-	1,506	1,506
Other comprehensive income for the period	-	-	1,753	-	-	1,753
Total comprehensive income for the period	-	-	1,753	-	1,506	3,259
Dividend recognised as distributions	-	-	-	-	-	-
At 30 June 2016 (unaudited)	**82,500**	**6,641**	**3,898**	**(38,562)**	**232,927**	**287,404**

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 reorganization in 1993.

2. the difference between the nominal value of the share capital of a subsidiary, LM Development, acquired pursuant to a group reorganization 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 PREPARATION

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 statement for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2015.

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 25.2% (2015: 17.7%) 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	
	2016	2015
	HK$'000	*HK$'000*
Customer A	**71,476**	58,008
Customer B	**29,672**	35,070
Customer C	**N/A***	36,042

** 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 and Myanmar.

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	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**23,805**	15,753
PRC	**17,248**	19,495
USA	**100,544**	132,516
Canada	**24,209**	19,429
The Netherlands	**17,596**	26,530
Italy	**32,396**	29,527
The United Kingdom	**5,700**	6,983
Germany	**4,094**	6,934
Other European countries	**27,137**	22,746
South American countries	**-**	41
Other Asian countries	**30,525**	47,527
	283,254	327,481

4. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Sample sales	**1,766**	1,222
Interest income	**48**	47
Management fee income	**298**	351
Scrap and obsolete inventory sales	**2,051**	249
Sundry income	**1,065**	19
	5,228	1,888

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Net exchange gain (loss)	**3,909**	(353)
Net loss on fair value changes on derivative financial instruments	**(40)**	-
Gain on disposal of property, plant and equipment	**4**	65
	3,873	(288)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	**3,088**	3,429
PRC Enterprise Income Tax ("EIT")	**107**	337
	3,195	3,766
Deferred tax – current period	**31**	(392)
	3,226	3,374

Hong Kong

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

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.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Directors' emoluments	**1,620**	1,583
Other staff costs	**102,120**	114,856
Retirement benefit schemes contributions (excluding directors)	**6,034**	5,031
Total staff costs	**109,774**	121,470
Amortisation of prepaid lease payments	**1,145**	312
Cost of inventories recognised as expenses	**187,561**	234,671
Depreciation of property, plant and equipment	**8,532**	7,047
Net loss on fair value changes on derivative financial instruments	**40**	-
Net exchange loss	**-**	353
and after crediting:		
Interest income	**48**	47
Gain on disposal of property, plant and equipment	**4**	65
Net exchange gain	**3,909**	-

8. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Final dividend paid during the period:		
No final dividend was paid for 2015 (2014: HK1 cent)	**-**	8,250
Interim dividend declared subsequent to period end:		
No interim dividend was declared for 2016 (2015: nil)	**-**	-

9. 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	
	2016	2015
	HK$'000	*HK$'000*
Profit for the period for the purpose of basic earnings per share	**1,506**	6,172
	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.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$38.3 million (2015: HK$5.7 million) on property, plant and equipment to expand its operation.

11. INVENTORIES

	At 30.06.2016	At 31.12.2015
	HK$'000	*HK$'000*
Raw materials	**35,514**	29,337
Work in progress	**22,060**	31,554
Finished goods	**8,049**	12,617
	65,623	73,508

12. 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$81,307,000 (31.12.2015: HK$79,800,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2016	At 31.12.2015
	HK$'000	*HK$'000*
Not exceeding 30 days	**59,634**	57,150
31 to 60 days	**20,351**	13,585
61 to 90 days	**1,184**	8,942
Over 90 days	**138**	123
	81,307	79,800
Prepayment and deposits	**9,458**	12,628
Other receivables	**12,122**	6,774
	102,887	99,202

13. TRADE AND OTHER PAYABLES

Trade and other payables principally comprise amounts outstanding for trade purchase and ongoing costs. The average credit period obtained for trade purchase is 7 to 60 days.

Included in trade and other payables are trade and bills payables of approximately HK$42,588,000 (31.12.2015: HK$36,313,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2016	At 31.12.2015
	HK$'000	*HK$'000*
Not exceeding 30 days	**27,497**	23,946
31 to 60 days	**11,206**	6,840
61 to 90 days	**2,045**	4,145
Over 90 days	**1,840**	1,382
	42,588	36,313
Other payables and accruals	**26,586**	33,641
	69,174	69,954

14. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each:		
Authorized:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	**5,000,000,000**	500,000
Issued and fully paid:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	**825,000,000**	82,500

15. CAPITAL COMMITMENTS

	At 30.06.2016	At 31.12.2015
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	**35,233**	13,084

16. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group had significant transactions with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules, during the period as follows:

			Six months ended 30 June	
			2016	2015
Connected parties	**Relationship**	**Nature of transactions**	***HK$'000***	*HK$'000*
Capital Nation Investments Limited	A company beneficially owned and controlled by Ms. Lee Rosanna Man Lai, a daughter of Mr. Lee Wan Keung	Corrugated cardboard and carton boxes purchased	**484**	537
Lee & Man Realty Investment Limited	A company beneficially owned and controlled by Mr. Lee Wan Keung	Licence fee paid	**1,141**	1,268

17. REVIEW OF INTERIM ACCOUNTS

The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Audit Committee.

INTERIM DIVIDEND

The Board has determined not to declare interim dividend for the six months ended 30 June 2016.

BUSINESS REVIEW

For the six months ended 30 June 2016, the Group recorded a revenue of approximately HK$283 million, decreased by 13.5% as compared to the last corresponding period; and a net profit for the period of approximately HK$1.51 million, 75.6% below the same period last year. Net profit margin was 0.5%, representing a decrease of 1.4 percentage points as compared to the same period last year.

The directors of the Company believed that the significant decrease in the amount of net profit for the period was mainly attributable to the serious pressure on our selling price due to the manufacturers in the Philippines and Vietnam export their products with low price. Also, the expansion of retail business has caused significant increase in selling expenses.

PROSPECTS

The coming year will be full of challenges. The recent British referendum to exit from European Union, the rise of USD interest rate, the economic slowdown in Europe and the geopolitical tensions, which resulted in continuous slowdown of global economy.

In order to strengthen the Group's competitive ability in the market, the Group has decided in 2015 to construct a new factory in Myanmar with total investment of approximately US$12 million. It is planned to commence operation at the end of 2016 and it is anticipated that the Group's average production costs can be reduced as a whole after the commencement of production of the new factory, thus strengthening the ability to receive orders. In addition, the Group has created its own brand in 2015 and has started the handbags retail business. Such business is still in the initial development stage and the management anticipates that it will take some time for the business to become mature.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2016 was approximately HK$287 million (31.12.2015: HK$284 million). As at 30 June 2016, the Group had current assets of approximately HK$452 million (31.12.2015: HK$483 million) and current liabilities of approximately HK$73 million (31.12.2015: HK$75 million). The current ratio was 6.16 and 6.46 as at 30 June 2016 and 31 December 2015 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 2016, the Group had no outstanding bank borrowings (31.12.2015: nil). As at 30 June 2016, the Group had loan from a director of HK$260 million (31.12.2015: HK$260 million). As at 30 June 2016, the Group maintained bank balances and cash of approximately HK$279 million (31.12.2015: HK$309 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total borrowings over shareholders' equity) was 0.07 and 0.17 as at 30 June 2016 and 31 December 2015 respectively.

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

HUMAN RESOURCES

As at 30 June 2016, the Group had a workforce of around 3,000 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 2016, 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 2016 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.

CONFIRMATION FROM THE INDEPENDENT FINANCIAL ADVISER

Reference is made to the composite document dated 12 July 2016 jointly published by Sonic Tycoon Limited and the Company (the "Composite Document") in connection with the mandatory unconditional cash offer made by Kingston Securities Limited, on behalf of Sonic Tycoon Limited, to acquire all the issued Shares not already owned and/or agreed to be acquired by Sonic Tycoon Limited and/or parties acting in concert with it (the "Offer"), containing a letter from Dakin Capital Limited as the independent financial adviser appointed to advise the independent committee of the Board in respect of the Offer.

Dakin Capital Limited has confirmed that, after taking into account the interim results of the Group for the period ended 30 June 2016, its opinion as set out in the "Letter from the Independent Financial Adviser" in the Composite Document remains the same.

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 2016.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 2 August 2016

As at the date of this announcement, the Board comprises 3 executive directors, namely, Ms. Wai Siu Kee, Mr. Kung Fang, David 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.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.