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**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)

**ANNUAL RESULTS ANNOUNCEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**FINANCIAL HIGHLIGHTS**

- Revenue of HK\$659 million for the year, decreased by 19.43% as compared to last year.
- Net profit of HK\$10 million for the year, decreased by 70.01% as compared to last year.
- Gross profit margin of 29.4% for the year.
- Net profit margin of 1.5% for the year.
- Earnings per share of HK1.2 cents for the year.

## FINANCIAL RESULTS

The board of directors (the “Directors”) of Lee & Man Handbags Holding Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015 together with comparative figures for the year ended 31 December 2014 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	<i>Notes</i>	<b><u>2015</u></b> <i>HK\$'000</i>	<b><u>2014</u></b> <i>HK\$'000</i>
Revenue	3	<b>658,797</b>	817,708
Cost of sales		<b><u>(465,284)</u></b>	<u>(661,015)</u>
Gross profit		<b>193,513</b>	156,693
Other income		<b>4,000</b>	5,314
Other gains and losses	4	<b>(565)</b>	3,143
Selling and distribution costs		<b>(58,015)</b>	(36,202)
General and administrative expenses		<b>(121,686)</b>	(94,727)
Finance cost		<b><u>(1,724)</u></b>	<u>(587)</u>
Profit before taxation		<b>15,523</b>	33,634
Income tax expense	5	<b><u>(5,510)</u></b>	<u>(241)</u>
Profit for the year	6	<b><u>10,013</u></b>	<u>33,393</u>
<b>Other comprehensive income (expense)</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit assets		<b>280</b>	451
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation		<b><u>(1,976)</u></b>	<u>(807)</u>
Other comprehensive expense for the year		<b><u>(1,696)</u></b>	<u>(356)</u>
Total comprehensive income for the year		<b><u>8,317</u></b>	<u>33,037</u>
Earnings per share (HK cents)	8	<b><u>1.2</u></b>	<u>4.0</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2015**

	<u>Notes</u>	<u>2015</u> <i>HK\$'000</i>	<u>2014</u> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		61,863	60,349
Prepaid lease payments		33,856	22,947
Investment properties		29,816	32,103
Other asset		395	395
Deposits paid for the acquisition of property, plant and equipment		2,354	1,663
Defined benefit assets		4,697	4,365
Deferred tax asset		2,921	2,120
		<u>135,902</u>	<u>123,942</u>
<b>CURRENT ASSETS</b>			
Inventories	9	73,508	70,902
Prepaid lease payments		864	629
Trade and other receivables	10	99,202	140,739
Tax recoverable		907	4,967
Bank balances and cash		308,576	53,436
		<u>483,057</u>	<u>270,673</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	69,954	83,874
Amount due to a director		1,371	-
Amount due to a related company		152	213
Derivative financial instrument		1,284	3
Tax payable		2,053	728
Bank borrowings		-	25,719
		<u>74,814</u>	<u>110,537</u>
<b>NET CURRENT ASSETS</b>		<u>408,243</u>	<u>160,136</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>544,145</u>	<u>284,078</u>
<b>NON-CURRENT LIABILITY</b>			
Loan from a director		<u>260,000</u>	-
<b>NET ASSETS</b>		<u>284,145</u>	<u>284,078</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		82,500	82,500
Reserves		<u>201,645</u>	<u>201,578</u>
		<u>284,145</u>	<u>284,078</u>

Notes:

## 1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" of the annual report.

As at 31 December 2015, the Company's parent and ultimate holding company is Full Gold Trading Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Lee Wan Keung.

The functional currency of the Company is United States dollars, while the consolidated financial statements are presented in Hong Kong dollars as the Company is listed in Hong Kong.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### *Application of new and revised HKFRSs*

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### *New and revised HKFRSs in issue but not yet effective*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statement <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

### *New and revised HKFRSs in issue but not yet effective - continued*

#### **HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors anticipate that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

## 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 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 operations are located in the United States of America ("USA"), Europe, Hong Kong and the People's Republic of China (the "PRC"). Sales to the largest customer contributed to 21.0% (2014: 11.3%) of the Group's total turnover.

### 3. SEGMENT INFORMATION - continued

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

	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	<b>138,133</b>	92,417
Customer B	N/A (Note)	83,975
Customer C	<b>72,496</b>	N/A(Note)
	<b><u>133,125</u></b>	<b><u>176,392</u></b>

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

Information about the Group's non-current assets, other than defined benefit assets and deferred tax assets is presented based on the geographical location of the assets:

	<u>Non-current assets</u>	
	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The PRC	<b>77,871</b>	85,354
Thailand	<b>29,816</b>	32,103
Myanmar	<b>20,597</b>	-
	<b><u>128,284</u></b>	<b><u>117,457</u></b>

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

	<u>Revenue from external customers</u>	
	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	<b>279,651</b>	315,536
Italy	<b>59,397</b>	120,268
The Netherlands	<b>53,311</b>	52,132
Canada	<b>43,589</b>	34,858
PRC	<b>37,187</b>	67,633
Other European countries	<b>35,330</b>	34,317
Hong Kong	<b>30,835</b>	45,638
The United Kingdom	<b>13,491</b>	16,712
Germany	<b>12,982</b>	18,141
South American countries	<b>41</b>	17,617
Other Asian countries	<b>92,983</b>	94,856
	<b><u>658,797</u></b>	<b><u>817,708</u></b>

#### 4. OTHER GAINS AND LOSSES

	<u>2015</u> <i>HK\$'000</i>	<u>2014</u> <i>HK\$'000</i>
Net exchange gain (loss)	116	(1,428)
(Loss) gain on fair value changes on derivative financial instruments	(1,284)	27
Gain on disposal of property, plant and equipment	65	60
Gain on fair value changes of investment properties	538	4,484
	<u>(565)</u>	<u>3,143</u>

#### 5. INCOME TAX EXPENSE

	<u>2015</u> <i>HK\$'000</i>	<u>2014</u> <i>HK\$'000</i>
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	4,596	1,492
PRC Enterprise Income Tax	1,753	1,335
	<u>6,349</u>	<u>2,827</u>
(Over)underprovision in prior year:		
Hong Kong Profits Tax	(38)	45
Deferred tax:		
Current year	(801)	(2,631)
	<u>5,510</u>	<u>241</u>

#### Hong Kong

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

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

#### PRC

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

## 6. PROFIT FOR THE YEAR

	<u>2015</u> <i>HK\$'000</i>	<u>2014</u> <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	3,204	2,676
Other staff costs	237,927	268,282
Retirement benefit schemes contributions (excluding directors)	1,574	1,384
Total staff costs	<u>242,705</u>	<u>272,342</u>
Release of prepaid lease payments	622	628
Auditors' remuneration		
Audit services	1,000	900
Non-audit services	75	131
Cost of inventories recognised as expenses (including reversal of write-down of inventories of HK\$3,524,000 (2014: including write-down of inventories of HK\$14,790,000))	465,284	661,015
Depreciation of property, plant and equipment	14,322	11,847
Interest income on bank balances	<u>(79)</u>	<u>(177)</u>

## 7. DIVIDENDS

	<u>2015</u> <i>HK\$'000</i>	<u>2014</u> <i>HK\$'000</i>
Dividends recognised as distributions during the year:		
Final dividend of HK1.0 cents per share for the year ended 31 December 2014	8,250	-
Final dividend of HK1.5 cents per share for the year ended 31 December 2013	-	12,375
Interim dividend of HK1.0 cents per share for the year ended 31 December 2014	-	8,250
	<u>8,250</u>	<u>20,625</u>

The board of directors of the Company has determined not to declare final dividend for the year ended 31 December 2015.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of HK\$10,013,000 (2014: HK\$33,393,000) and 825,000,000 (2014: 825,000,000) shares.

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



## 9. INVENTORIES

	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	29,337	21,518
Work in progress	31,554	35,839
Finished goods	12,617	13,545
	<u>73,508</u>	<u>70,902</u>

## 10. TRADE AND OTHER RECEIVABLES

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

Included in the balance are trade and bills receivables of HK\$79,800,000 (2014: HK\$126,705,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not exceeding 30 days	57,150	75,968
31 – 60 days	13,585	30,363
61 – 90 days	8,942	18,786
Over 90 days	123	1,588
	<u>79,800</u>	<u>126,705</u>
Prepayments and deposits	12,628	8,329
Other receivables	6,774	5,705
	<u>99,202</u>	<u>140,739</u>

## 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 HK\$36,313,000 (2014: HK\$43,373,000). The aged analysis of trade and bills payables at the end of the reporting period is as follows:

	<u>2015</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not exceeding 30 days	23,946	28,011
31 – 60 days	6,840	9,673
61 – 90 days	4,145	1,543
Over 90 days	<u>1,382</u>	<u>4,146</u>
	<b>36,313</b>	43,373
Other payables	4,842	6,810
Accrued salary	17,587	20,463
Accrued bonus	4,481	5,344
Other accrued expenses	<u>6,731</u>	<u>7,884</u>
	<b><u>69,954</u></b>	<b><u>83,874</u></b>

## FINAL DIVIDEND

The board of directors of the Company has determined not to declare final dividend for the year ended 31 December 2015.

## CLOSURE OF REGISTER OF MEMBERS

### In relation to the AGM

The annual general meeting (the “AGM”) of the Company is scheduled to be held on 18 May 2016. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 16 May 2016 to 18 May 2016, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:00 p.m. on 13 May 2016.

## **COMMENTARY**

For the year ended 31 December 2015, the Group recorded revenue of HK\$659 million, decreased by 19.4% as compared to last year; and a net profit for the year of about HK\$10 million, decreased by 70% as compared to last year.

Net profit for the year decreased significantly mainly due to the manufacturers from other countries such as Philippines and Vietnam exporting the products with cheap price, which imposed serious pressure on sales order price. In addition, continuous rising labour costs in China also lead to significant decrease in our Group's profit.

## **PROSPECTS**

It is anticipated that the coming year will be full of challenges. The rise of USD interest rate, the economic slowdown in Europe and the geopolitical tensions, which resulted in continuous slowdown of global economy and hindered the foreign trade growth of Hong Kong. The above factors coupled with the surging labour costs will weaken the profitability of handbag business.

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.

The above projects will be financed by internal funds and borrowings. The Group possesses sufficient cash and available banking facilities to meet its capital expenditure and working capital requirements.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The total shareholders' equity of the Group as at 31 December 2015 was HK\$284 million (31.12.2014: HK\$284 million). As at 31 December 2015, the Group had current assets of HK\$483 million (31.12.2014: HK\$271 million) and current liabilities of HK\$75 million (31.12.2014: HK\$111 million). The current ratio was 6.46 as at 31 December 2015 as compared to 2.45 as at 31 December 2014.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong. As at 31 December 2015, the Group had no outstanding bank borrowings (31.12.2014: HK\$26 million). As at 31 December 2015, the Group maintained bank balances and cash of HK\$309 million (31.12.2014: HK\$53 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total borrowings over shareholders' equity) was 0.17 as at 31 December 2015 (31.12.2014: 0.10).

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

## **CAPITAL COMMITMENTS**

As at 31 December 2015, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the property, plant and equipment improvement in amount of HK\$13.08 million.

## **HUMAN RESOURCES**

At 31 December 2015, the Group had a workforce of about 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 year ended 31 December 2015, 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 year ended 31 December 2015 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, comprising all the independent non-executive directors of the Company, has reviewed the result of the Group for the year ended 31 December 2015 and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

## **ANNUAL GENERAL MEETING**

It is proposed that the Annual General Meeting of the Company will be held on 18 May 2016. The Notice of the Annual General Meeting will be published in the company's website and sent to the shareholders of the Company in due course.

On behalf of the Board  
**Wai Siu Kee**  
*Chairman*

Hong Kong, 18 March 2016

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