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LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.leemanchemical.com>

(Stock Code: 746)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by 54.6% to HK\$1,253 million.
- Net profit increased by 102.5% to HK\$241 million.
- Gross profit margin increased from 36.6% to 42.6%.
- Net profit margin was 19.3%.
- Basic earnings per share increased from HK14.5 cents to HK29.3 cents.
- Declared interim dividend of HK10 cents per share.

INTERIM RESULTS

The board of directors (the “Board”) of Lee & Man Chemical Company 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 2017 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 2017

	<i>Notes</i>	Six months ended 30 June	
		<u>2017</u> (Unaudited) HK\$'000	<u>2016</u> (Unaudited) HK\$'000
Revenue	3	1,252,591	810,106
Cost of sales		(719,509)	(513,501)
Gross profit		533,082	296,605
Other income	4	14,218	33,430
Net exchange gains (losses)		10,385	(8,101)
Other losses	5	(514)	(704)
Selling and distribution costs		(74,471)	(58,171)
General and administrative expenses		(81,386)	(66,945)
Research and development cost		(45,334)	(21,185)
Finance costs	6	(37,004)	(6,965)
Share of loss of joint ventures		(470)	(1,580)
Profit before taxation		318,506	166,384
Income tax expense	7	(77,024)	(47,134)
Profit for the period	8	241,482	119,250
Other comprehensive income (expenses) :			
Items that will not be reclassified to profit or loss :			
Exchange differences arising from translation		24,331	-
Net loss on hedging instruments in cash flow hedges		-	(18)
Other comprehensive income (expenses) for the period		24,331	(18)
Total comprehensive income for the period		265,813	119,232
Earnings per share :	10		
- Basic (HK cents)		29.3	14.5
- Diluted (HK cents)		29.1	N/A

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017**

	<i>Notes</i>	30.06.2017 (Unaudited) <i>HK\$'000</i>	31.12.2016 (Audited) <i>HK'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,489,725	3,319,668
Prepaid lease payments		112,049	112,496
Investment property		62,500	61,798
Intangible assets		2,576	2,254
Deposits paid for the acquisition of property, plant and equipment		96,414	115,836
Interests in joint ventures		16,480	16,693
Loan to a joint venture		96,865	95,365
Other deposits		94,305	93,245
Deferred tax asset		24,026	23,317
		3,994,940	3,840,672
CURRENT ASSETS			
Inventories	12	333,009	231,846
Prepaid lease payments		3,497	3,022
Trade and other receivables	13	636,184	425,880
Tax recoverable		-	7,951
Amounts due to related companies		1,208	-
Amount due from a joint venture		15,369	14,603
Bank balances and cash		305,575	228,091
		1,294,842	911,393
CURRENT LIABILITIES			
Trade and other payables	14	389,835	355,400
Amounts due to related companies		-	2,602
Taxation payable		34,395	48,681
Derivative financial instruments		-	20
Bank borrowings - due within 1 year		479,104	444,759
		903,334	851,462
NET CURRENT ASSETS		391,508	59,931
TOTAL ASSETS LESS CURRENT LIABILITIES		4,386,448	3,900,603
NON-CURRENT LIABILITIES			
Other payables	14	39,902	26,299
Deferred tax liabilities		8,099	8,008
Bank borrowings - due after 1 year		1,763,609	1,524,271
		1,811,610	1,558,578
NET ASSETS		2,574,838	2,342,025
CAPITAL AND RESERVES			
Share capital	15	82,500	82,500
Reserves		2,492,338	2,259,525
		2,574,838	2,342,025

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Share capital	Share premium	Non-distrib utable reserve	Safety fund reserve	Translation reserve	Hedging reserve	Special reserve	Accumulate d profits	Total
	HK\$'000	HK\$'000	HK\$'000 (note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note ii)	HK\$'000	HK\$'000
At 1 January 2016 (audited)	82,500	20,307	289,475	20,348	32,456	(184)	(97,362)	1,998,738	2,346,278
Profit for the period	-	-	-	-	-	-	-	119,250	119,250
Other comprehensive expense for the period	-	-	-	-	-	(18)	-	-	(18)
Total comprehensive expense for the period	-	-	-	-	-	(18)	-	119,250	119,232
Dividend recognised as distribution	-	-	-	-	-	-	-	(41,250)	(41,250)
Transfer to non-distributable reserve	-	-	16,297	-	-	-	-	(16,297)	-
Release upon deregistration of a subsidiary	-	-	-	-	224	-	-	(224)	-
At 30 June 2016 (unaudited)	82,500	20,307	305,772	20,348	32,680	(202)	(97,362)	2,060,217	2,424,260
At 1 January 2017 (audited)	82,500	20,307	333,446	14,427	(105,453)	-	(97,362)	2,094,160	2,342,025
Profit for the period	-	-	-	-	-	-	-	241,482	241,482
Other comprehensive income for the period	-	-	-	-	24,331	-	-	-	24,331
Total comprehensive income for the period	-	-	-	-	24,331	-	-	241,482	265,813
Dividend recognised as distribution	-	-	-	-	-	-	-	(33,000)	(33,000)
Transfer to non-distributable reserve	-	-	26,524	-	-	-	-	(26,524)	-
At 30 June 2017 (unaudited)	82,500	20,307	359,970	14,427	(81,122)	-	(97,362)	2,276,118	2,574,838

notes:

- i. According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.
- ii. The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in December 2001.

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 statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2016.

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

(a) Operating segments

Information reported to the Chief Executive Officer of the Company, being the Chief Operating Decision Maker (“CODM”), for the purposes of resources allocation and assessment of segment performance focuses on types of goods sold.

The CODM regards the Chemical Business as the Group’s sole operating reportable segment and reviews the Group’s results and financial position as a whole for the purpose of performance measurement and resources allocation. Accordingly, no segment analysis is presented other than entity wide disclosure.

(b) Geographical information

The Group’s operations are located in the PRC.

The Group’s revenue from external customers by geographical location is detailed below:

	<u>Revenue from</u> <u>external customers</u>	
	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>
PRC	<u>1,252,591</u>	<u>810,106</u>

(c) **Revenue from major products**

The following is an analysis of the Group's revenue from its major products:

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chloromethane products	292,635	247,290
Caustic soda	643,387	389,762
Fluorochemical products	246,017	110,336
Hydrogen peroxide	43,290	29,701
Others	27,262	33,017
	<u>1,252,591</u>	<u>810,106</u>

(d) **Information about major customers**

No customer contributed over 10% of the total sales of the Group in both periods.

4. OTHER INCOME

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	1,062	1,228
Government grant	4,764	17,395
Scrap sales	2,392	2,139
Others	6,000	12,668
	<u>14,218</u>	<u>33,430</u>

5. OTHER LOSSES

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss from changes in fair value of derivative financial instruments	12	-
Loss on disposal of property, plant and equipment	502	704
	<u>514</u>	<u>704</u>

6. FINANCE COSTS

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	37,004	27,733
Amount capitalized to property, plant and equipment	-	(21,069)
Net adjustment on interest rate swaps designated as cash flow hedges of floating rate debt	-	301
	<u>37,004</u>	<u>6,965</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	HK\$'000	HK\$'000
The charge comprises :		
Current tax :		
PRC Enterprise Income Tax ("EIT")	59,862	46,881
Withholding tax on dividend income	15,398	-
Deferred tax:		
Current period	1,764	253
	<u>77,024</u>	<u>47,134</u>

The Group's major business is in the PRC. Under the Law of the PRC on EIT and its Implementation Regulation, the tax rate of the PRC subsidiaries is 25%.

For the year 2016 and 2017, Jiangsu Lee & Man Chemical Limited was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New-Tech Enterprise.

No provision for Hong Kong Profits Tax is made for both periods since there is no assessable profit for both periods.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Directors' emoluments	7,675	4,885
Other staff costs	88,196	77,982
Retirement benefit schemes contributions (excluding directors)	5,663	4,018
Total staff costs	<u>101,534</u>	<u>86,885</u>
Cost of inventories recognised as expenses	719,509	513,501
Depreciation of property, plant and equipment	141,433	87,091
Amortisation of prepaid lease payments	1,283	1,352
Amortisation of intangible assets included in cost of sales	561	584
Total depreciation and amortisation	<u>143,277</u>	<u>89,027</u>
Capitalised in inventories	(124,887)	(77,017)
	<u>18,390</u>	<u>12,010</u>

9. DIVIDENDS

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid during the period:		
2016 final dividend HK4.0 cents per share (2015: HK5.0 cents)	<u>33,000</u>	<u>41,250</u>
Interim dividend declared subsequent to period end:		
2017 interim dividend HK10.0 cents per share (2016: HK5.0 cents)	<u>82,500</u>	<u>41,250</u>

The Board has declared that an interim dividend of HK10.0 cents (2016: HK5.0 cents) per share for the six months ended 30 June 2017 to shareholders whose names appear in the Register of Members on 15 September 2017.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share from attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>241,482</u>	<u>119,250</u>
	<i>Number of</i>	<i>Number of</i>
	<i>Shares</i>	<i>Shares</i>
Number of ordinary shares for the purpose of basic earnings per share	825,000,000	825,000,000
Effect of dilutive potential ordinary shares: Share options	<u>5,843,000</u>	<u>-</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>830,843,000</u>	<u>825,000,000</u>

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$274 million (2016: HK\$194 million) on property, plant and equipment to expand its operation.

12. INVENTORIES

	At <u>30.06.2017</u> <i>HK\$'000</i>	At <u>31.12.2016</u> <i>HK\$'000</i>
Raw materials and consumables	201,676	152,680
Work in progress	23,853	18,271
Finished goods	107,480	60,895
	<u>333,009</u>	<u>231,846</u>

13. TRADE AND OTHER RECEIVABLES

The Group generally allows its trade customers an average credit period ranged from 7 to 60 days.

Included in the balance are trade and bills receivables of approximately HK\$397,688,000 (31.12.2016: HK\$219,722,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At <u>30.06.2017</u> <i>HK\$'000</i>	At <u>31.12.2016</u> <i>HK\$'000</i>
Not exceeding 30 days	220,387	153,699
31 to 60 days	80,600	40,593
61 to 90 days	47,498	15,858
91 to 120 days	30,618	5,102
Over 120 days	18,585	4,470
	<u>397,688</u>	<u>219,722</u>
Prepayments	97,917	40,074
Deposits to suppliers	25,514	40,745
Value-added tax receivables	105,256	119,654
Other receivables	9,809	5,685
Total trade and other receivables	<u>636,184</u>	<u>425,880</u>

14. 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 45 days.

Included in trade and other payables are trade and bills payables of approximately HK\$132,561,000 (31.12.2016: HK\$95,530,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	At <u>30.06.2017</u> <i>HK\$'000</i>	At <u>31.12.2016</u> <i>HK\$'000</i>
Not exceeding 30 days	83,715	63,217
31 to 60 days	19,202	9,662
61 to 90 days	5,686	7,774
Over 90 days	23,958	14,877
	<u>132,561</u>	<u>95,530</u>
Receipt in advance	70,602	47,800
Construction costs payable and accruals (note i)	121,556	118,990
Value-added tax accruals	9,090	7,271
Other payables (note ii)	74,515	93,536
Other accruals	21,413	18,572
Total trade and other payables	<u>429,737</u>	<u>381,699</u>

notes:

- i. The balance of construction costs payable and accruals comprises non-current construction costs payables of HK\$13,106,000 (31.12.2016: HK\$26,299,000).
- ii. The balance of other payables comprises non-current other payables of HK\$26,796,000 (31.12.2016: NIL).

15. SHARE CAPITAL

	<u>Number of ordinary shares</u>	<u>Amount HK\$'000</u>
Ordinary shares of HK\$0.1 each:		
Authorised:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	<u>825,000,000</u>	<u>82,500</u>

16. CAPITAL COMMITMENTS

	<u>At</u> <u>30.06.2017</u> <i>HK\$'000</i>	<u>At</u> <u>31.12.2016</u> <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition:		
- property, plant and equipment	185,402	278,093
- intangible assets	22,152	8,422
	<u>207,554</u>	<u>286,515</u>

17. CONNECTED AND RELATED PARTY TRANSACTIONS

During the interim period, the Group had significant transactions with related parties, certain of which are also deemed to be connected parties pursuant to the Listing Rules. Significant transactions with these parties during the interim period are as follows:

<u>Connected parties</u>	<u>Relationship</u>	<u>Nature of transactions</u>	Six months ended 30 June	
			<u>2017</u> <i>HK\$'000</i>	<u>2016</u> <i>HK\$'000</i>
Lee & Man Paper Manufacturing Ltd.	A company beneficially owned and controlled by Mr. Lee Wan Keung	Electricity & steam fee paid	33,617	32,027
		Loading expense paid	4,400	5,239
		Rental expense paid	860	917
		Sales of chemical products	12,750	7,191
		Electricity & steam fee received	18,635	18,346
		Rental income received	951	665
			<u>951</u>	<u>665</u>

18. 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 declared an interim dividend of HK10.0 cents per share for the six months ended 30 June 2017 to shareholders whose names appear on the Register of Members on 15 September 2017. It is expected that the interim dividend will be paid around 27 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 September 2017 to 15 September 2017, 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 4:30 p.m. on 12 September 2017.

BUSINESS REVIEW

For the six months ended 30 June 2017, the Group recorded a revenue of approximately HK\$1,253 million, increased by 54.6% as compared to last corresponding period; and a net profit for the period of approximately HK\$241 million, representing a rise of 102.5% year on year.

The Group's gross profit margin was 42.6%, an increase of 6 percentage point as compared to the same period last year and net profit margin of 19.3% which was increased by 4.6 percentage points for the period. The main contribution was come from the higher sales volume and product selling price, which increase the profit margin of the Group.

PROSPECTS

With the first and second phase production lines of Jiangxi plant have been officially put into production last year, the new operation has contributed profit to the Group.

The Group is constructing the third phase of Jiangxi plant in the second half of this year, which can increase product revenue. In addition, the Group has committed to new product research and development, employed scientific research experts who possess rich chemical experience and in acquiring more scientific research equipment, so as to expand and enhance the internal research and development team. The Group expect to successfully develop new product and performance coating within this year, so as to meet the trend of refined chemical development in the coming future.

As always, our management team will leverage on our internal technical innovation and scientific research and development in a pragmatic and aggressive approach and continue its persistent efforts to deliver reasonable rewards to the shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2017 was approximately HK\$2,575 million (31.12.2016: HK\$2,342 million). As at 30 June 2017, the Group had current assets of approximately HK\$1,295 million (31.12.2016: HK\$911million) and current liabilities of approximately HK\$903 million (31.12.2016: HK\$851 million). The current ratio was 1.43 as at 30 June 2017 (31.12.2016: 1.07).

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2017, the Group had outstanding bank borrowings of approximately HK\$2,243 million (31.12.2016: HK\$1,969 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 30 June 2017, the Group maintained bank balances and cash of approximately HK\$306 million (31.12.2016: HK\$228 million). The Group's net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) was 75.23% as at 30 June 2017 (31.12.2016: 74.33%).

The Group's liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion.

EMPLOYEES

As at 30 June 2017, the Group had a workforce of around 1,800 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Group. The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2017, 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 2017.

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 2017.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 21 August 2017

As at the date of this announcement, the Board comprises four executive directors, namely, Ms Wai Siu Kee, Mr Lee Man Yan, Professor Chan Albert Sun Chi, Mr Yang Zuo Ning, and three independent non-executive directors, namely, Mr Wong Kai Tung, Tony, Mr Wan Chi Keung, Aaron BBS JP and Mr Heng Victor Ja Wei.