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**LEE & MAN HOLDING LIMITED**

理文集團有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

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

(Stock Code: 746)

**FINAL RESULTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**FINANCIAL HIGHLIGHTS**

- Revenue increased by 52.4% to HK\$2,138.8 million as compared to the last year.
- Net profit increased by 95.7% to HK\$457.5 million as compared to the last year.
- Net profit margin increased from 16.7% to 21.4%.
- Earnings per share increased by 96.1% to HK55.5 cents as compared to the last year.
- Proposed final dividend of HK13 cents per share.

## FINANCIAL RESULTS

The board of directors (the “Directors”) of Lee & Man 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 2010 together with comparative figures for the year ended 31 December 2009 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Revenue	3	<b>2,138,808</b>	1,403,428
Cost of sales		<u><b>(1,333,105)</b></u>	<u>(983,753)</u>
Gross profit		<b>805,703</b>	419,675
Other income		<b>13,755</b>	7,409
Selling and distribution costs		<b>(78,195)</b>	(60,497)
General and administrative expenses		<b>(201,251)</b>	(108,484)
Interest on bank borrowings wholly repayable within five years		<u><b>(10,480)</b></u>	<u>(13,792)</u>
Profit before taxation		<b>529,532</b>	244,311
Income tax expense	4	<u><b>(71,989)</b></u>	<u>(10,488)</u>
Profit for the year	5	<u><b>457,543</b></u>	<u>233,823</u>
<b>Other comprehensive income</b>			
Surplus arising on revaluation of property, plant and equipment		<b>22,083</b>	10,704
Recognition of deferred tax liability arising on revaluation of property, plant and equipment		<b>(3,111)</b>	(426)
Exchange differences arising from translation		<b>40,667</b>	35
Share of reserve of a jointly controlled entity		<u><b>161</b></u>	<u>-</u>
Other comprehensive income for the year		<u><b>59,800</b></u>	<u>10,313</u>
Total comprehensive income for the year		<u><b>517,343</b></u>	<u>244,136</u>
Earnings per share (HK cents)	7	<u><b>55.5</b></u>	<u>28.3</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2010**

	<i>Notes</i>	<u>2010</u> <i>HK\$'000</i>	<u>2009</u> <i>HK\$'000</i> <i>(restated)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,257,403	1,147,156
Prepaid lease payments		55,855	55,766
Investment properties		26,341	22,408
Intangible assets		8,323	8,480
Deposit paid for the acquisition of property, plant and equipment		29,598	12,841
Interest in a jointly controlled entity		4,706	-
Defined benefit assets		4,538	4,250
		<u>1,386,764</u>	<u>1,250,901</u>
<b>CURRENT ASSETS</b>			
Inventories		168,072	108,375
Prepaid lease payments		1,235	1,210
Trade and other receivables	8	304,323	178,387
Derivative financial instruments		-	704
Tax recoverable		2,824	-
Restricted bank balances		-	1,705
Bank balances and cash		393,385	70,638
		<u>869,839</u>	<u>361,019</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	313,530	293,991
Derivative financial instruments		530	-
Amounts due to related companies		6,955	8,911
Taxation payable		27,884	3,631
Bank borrowings - due within 1 year		479,577	288,832
		<u>828,476</u>	<u>595,365</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<u>41,363</u>	<u>(234,346)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,428,127</u>	<u>1,016,555</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings - due after 1 year		41,808	83,616
Other long term payables		-	1,676
Deferred taxation		8,917	6,008
		<u>50,725</u>	<u>91,300</u>
<b>NET ASSETS</b>		<u>1,377,402</u>	<u>925,255</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued**  
**AT 31 DECEMBER 2010**

	<i>Notes</i>	<u>2010</u> <i>HK\$'000</i>	<u>2009</u> <i>HK\$'000</i> <i>(restated)</i>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>82,500</b>	82,500
Reserves		<u>1,294,902</u>	<u>842,755</u>
		<b><u>1,377,402</u></b>	<b><u>925,255</u></b>

Notes:

## 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the HKICPA.

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and /or disclosures set out in these consolidated financial statements.

### ***Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause***

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK\$211,460,000 (2009: HK\$70,234,000) have been reclassified from non-current liabilities to current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) - continued

### *Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – continued*

The effects of the above changes in accounting policies on the financial position of the Group as at 31 December 2009 is as follows:

	As at 31/12/2009 (originally stated) HK\$'000	Adjustments HK\$'000 Increase (decrease)	As at 31/12/2009 (restated) HK\$'000
<b><i>Current liabilities</i></b>			
Bank Borrowings	218,598	70,234	288,832
<b><i>Non-current liabilities</i></b>			
Bank Borrowings	153,850	(70,234)	83,616
	<u>372,448</u>	<u>-</u>	<u>372,448</u>

The above changes in accounting policies have no impact on the financial position of the Group as at 1 January 2009 because the Group’s facilities on that date did not include any repayment on demand clause. As such, the consolidated statement of financial position as at 1 January 2009 is not presented.

### *New and revised Standards and Interpretations issued but not yet effective*

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>2</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>4</sup>
HKAS 24 (as revised 2009)	Related Party Disclosures <sup>5</sup>
HKAS 32 (Amendments)	Classification of Right Issues <sup>6</sup>
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>5</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>6</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>7</sup> Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) - continued

### *New and revised Standards and Interpretations issued but not yet effective- continued*

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 has no significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the consolidated financial statements.

### 3. Segment information

#### (a) Operating Segments

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods sold.

The Group's operating and reportable segments under HKFRS 8 Operating Segments are Handbags and Chemical products.

Principal activities are as follows :

Handbags - Manufacture and sales of handbags  
 Chemical products - Manufacture and sales of chloromethane products , caustic soda and hydrogen peroxide

Information regarding the above segments is reported below.

#### Segment revenues and results

	<u>Handbags</u> <i>HK\$'000</i>	<u>Chemical products</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
<u>For the year ended 31 December 2010</u>			
<b>REVENUE</b> - External sales	<u>853,539</u>	<u>1,285,269</u>	<u>2,138,808</u>
Segment profit	<u>112,799</u>	<u>428,952</u>	541,751
Central administration costs			(1,739)
Interest on bank borrowings wholly repayable within five years			<u>(10,480)</u>
Profit before taxation			<u>529,532</u>

#### Segment revenues and results

	<u>Handbags</u> <i>HK\$'000</i>	<u>Chemical products</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
<u>For the year ended 31 December 2009</u>			
<b>REVENUE</b> - External sales	<u>727,555</u>	<u>675,873</u>	<u>1,403,428</u>
Segment profit	<u>119,865</u>	<u>139,400</u>	259,265
Other income			3
Central administration costs			(1,165)
Interest on bank borrowings wholly repayable within five years			<u>(13,792)</u>
Profit before taxation			<u>244,311</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs and finance costs. This is the measure reported to the Chairman for the purposes of resource allocation and performance assessment.



### 3. Segment information – continued

#### (a) Operating Segments - continued

##### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment :

<b>Segment assets</b>	<u>2010</u> <i>HK\$'000</i>	<u>2009</u> <i>HK\$'000</i>
Handbags	471,311	406,883
Chemical products	1,784,931	1,204,673
Total segment assets	<u>2,256,242</u>	<u>1,611,556</u>
Unallocated	<u>361</u>	<u>364</u>
Consolidated assets	<u><u>2,256,603</u></u>	<u><u>1,611,920</u></u>
<b>Segment liabilities</b>	<u>2010</u> <i>HK\$'000</i>	<u>2009</u> <i>HK\$'000</i>
Handbags	258,156	266,201
Chemical products	620,394	419,903
Total segment liabilities	<u>878,550</u>	<u>686,104</u>
Unallocated	<u>651</u>	<u>561</u>
Consolidated liabilities	<u><u>879,201</u></u>	<u><u>686,665</u></u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than corporate assets.
- all liabilities are allocated to reportable segments other than corporate liabilities.

##### Other segment information

Amounts included in the measurement of segment profit or loss, or segment assets :

#### 2010

	<u>Handbags</u> <i>HK\$'000</i>	<u>Chemical</u> <u>products</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
Addition to non-current assets (note)	7,579	154,739	162,318
Depreciation of property, plant and equipment	16,362	87,856	104,218
Release of prepaid lease payments	490	727	1,217
Amortisation of intangible assets	-	1,019	1,019
Impairment loss recognised in respect of trade receivables	204	-	204
Loss on disposal of property, plant and equipment	62	480	542
Gain on fair value changes on derivative financial instruments	(70)	-	(70)
Reversal of write-down of inventories	(3,114)	-	(3,114)
Recovery of doubtful debt	<u>(6)</u>	<u>-</u>	<u>(6)</u>

### 3. Segment information – continued

#### (a) Operating Segments - continued

##### Other segment information - continued

2009

	<u>Handbags</u>	<u>Chemical</u> <u>products</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Addition to non-current assets (note)	3,603	224,529	228,132
Depreciation of property, plant and equipment	15,383	50,968	66,351
Release of prepaid lease payments	490	576	1,066
Amortisation of intangible assets	-	800	800
Impairment loss recognised in respect of trade receivables	255	114	369
Loss on disposal of property, plant and equipment	66	161	227
Write-down (reversal of write-down) of inventories	5,252	(3,866)	1,386
Gain on fair value changes on derivative financial instruments	<u>(704)</u>	<u>-</u>	<u>(704)</u>

note : Non-current assets excluded defined benefit assets.

#### (b) Revenue from major products and services

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

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Handbags	853,539	727,555
Chemical products	<u>1,285,269</u>	<u>675,873</u>
	<u>2,138,808</u>	<u>1,403,428</u>

### 3. Segment information - continued

#### (c) Geographical information

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and the United States of America ("USA").

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below :

	<u>Revenue from external customers</u>		<u>Non-current assets (note)</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	19,461	14,250	1,567	1,779
PRC	1,291,811	673,748	1,354,273	1,222,403
USA	457,729	367,139	45	61
Canada	31,927	26,557	-	-
The Netherlands	76,782	87,332	-	-
Italy	65,380	57,283	-	-
The United Kingdom	47,967	43,076	-	-
Germany	14,390	15,726	-	-
Other European countries	30,023	45,364	-	-
South American countries	28,914	27,499	-	-
Other Asian countries	74,082	44,650	26,341	22,408
Others	342	804	-	-
	<u>2,138,808</u>	<u>1,403,428</u>	<u>1,382,226</u>	<u>1,246,651</u>

note : Non-current assets excluded defined benefit assets .

#### (d) Information about major customers

The directors are not aware of any customer that individually contributed over 10% of the consolidated revenue from external customers for both years.

### 4. Income tax expense

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises :		
Current tax :		
Hong Kong Profits Tax	9,488	11,015
Other jurisdictions Income Tax	62,703	59
	<u>72,191</u>	<u>11,074</u>
Deferred tax :		
Current year	(202)	(586)
	<u>71,989</u>	<u>10,488</u>

#### 4. Income tax expense - continued

##### 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 between the Group and the Inland Revenue Department in Hong Kong, certain profit of the Group is not subject to tax.

##### PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries is exempted from PRC income tax for two years starting from 2008, followed by a 50% reduction for the next three years. These tax holidays and concessions expire in 2012.

##### Other jurisdictions

Taxation arising in other jurisdictions is calculated at the rates prevailing in relevant jurisdictions.

#### 5. Profit for the year

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	70,583	3,227
Other staff costs	224,513	176,731
Retirement benefit schemes contributions (excluding directors)	2,743	2,114
Total staff costs	<u>297,839</u>	<u>182,072</u>
Amortisation of prepaid lease payments	1,217	1,066
Amortisation of intangible assets	1,019	800
Auditors' remuneration	1,553	1,190
Cost of inventories recognised as expenses (including reversal of write-down of inventories of HK\$3,114,000 (2009 : write-down of inventories of HK\$1,386,000))	1,333,105	983,753
Depreciation of property, plant and equipment	104,218	66,351
Impairment loss recognised in respect of trade receivables (included in selling and distribution costs)	204	369
Loss on disposal of property, plant and equipment	542	227
Loss on fair value changes on investment properties	-	125
Deficit arising on revaluation of property, plant and equipment	65	15
Net exchange loss	5,104	1,098
Research and development cost recognised as expenses	2,043	629
and after crediting:		
Interest income	1,701	291
Recovery of doubtful debt	6	-
Gain on fair value changes on investment properties	1,374	-
Gain on fair value changes on derivative financial instruments	<u>70</u>	<u>704</u>

## 6. Dividends

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distributions during the year:		
Final dividend of HK\$0.07 per share for the year ended 31.12.2009	57,750	-
Interim dividend of HK\$0.09 per share for the year ended 31.12.2010	74,250	-
Final dividend of HK\$0.015 per share for the year ended 31.12.2008	-	12,375
Interim dividend of HK\$0.03 per share for the year ended 31.12.2009	-	24,750
	<u>132,000</u>	<u>37,125</u>

A final dividend of HK\$0.13 (2009: HK\$0.07) per share for the year ended 31 December 2010 has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

## 7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK\$457,543,000 (2009: HK\$233,823,000) and 825,000,000 (2009: 825,000,000) shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for 2010. Diluted earnings per share is not presented because there is no dilutive effect on earnings per share.

## 8. Trade and other receivables

The Group generally allows its trade customers an average credit period ranged from 0 to 90 days.

Included in the balance are trade and bills receivables of HK\$241,091,000 (2009: HK\$153,943,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	208,015	101,216
31 – 60 days	25,635	38,313
61 – 90 days	4,317	12,970
Over 90 days	3,124	1,444
	<u>241,091</u>	<u>153,943</u>
Prepayment and deposits	60,268	22,667
Other receivables	2,964	1,777
	<u>304,323</u>	<u>178,387</u>

## 9. 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 30 to 90 days.

Included in trade and other payables are trade and bills payables of HK\$150,838,000 (2009: HK\$138,074,000). The aged analysis of trade and bills payables at the end of the reporting period is as follows:

	<u>2010</u>	<u>2009</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	80,433	88,508
31 – 60 days	33,009	22,905
61 – 90 days	29,291	21,843
Over 90 days	8,105	4,818
	<hr/>	<hr/>
	150,838	138,074
Other payables and accruals	162,692	155,917
	<hr/>	<hr/>
	<b>313,530</b>	<b>293,991</b>
	<hr/> <hr/>	<hr/> <hr/>

## FINAL DIVIDEND

The Directors have proposed a final dividend of HK13.0 cents per share for the year ended 31 December 2010 to shareholders whose names appear on the Register of Members on 9 May 2011. The final dividend is subject to approval by the shareholders in the forthcoming annual general meeting. It is expected that the final dividend will be paid around 31 May 2011.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4 May 2011 to 9 May 2011, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on 3 May 2011.

## **BUSINESS REVIEW**

For the year ended 31 December 2010, the Group recorded a revenue of HK\$2,138.8 million, increased by 52.4% over last year ; and a net profit of HK\$457.5 million, representing a substantial increase of 95.7% over last year. The handbag business contributed a net profit of HK\$100.8 million while the chemical business generated a net profit of HK\$356.7 million.

As to the handbag business, because the European and US market was weak, the Group continuously paid effort in developing new clients, enhancing product design and adopting effective cost controls, coupled with many years of experience in the market, the revenue from handbag business increased by 17.3% over last year. This has brought stable profit to the Group.

For the chemical business, with the third phase production line being fully operated in last year, as well as a strong recovery in the PRC domestic market, chemical business recorded a turnover of HK\$1,285.3 million for the year ended 31 December 2010, representing 90.2% increase over last year whereas net profit for the period rose by 181.1% to 356.7 million. The main reasons for a significant increase in net profit were substantial increased in productivity and products price. It resulted in a substantial increase in gross profit margin from 29.5% for last year to 44.5% for current year. Such excellent performance not only generated considerable profit contribution to the Group, but also laid a good foundation for the future business expansion.

## **PROSPECTS**

On 26 January 2011, the Group made an announcement in which the Company made an application to the Stock Exchange for the approval of the Proposed Spin-off of handbag business by the way of distribution in specie to the existing shareholders without raising any new fund. The Proposed Spin-off will enable the management team of the Company to continue to focus on building its core business, thereby enhancing the decision-making process and its responsiveness to market changes. The proposed spin-off is subject to the approval by Hong Kong Stock Exchange.

Expecting the handbag market to stabilise, the Company will focus on developing the China domestic market, in order to widen the market segment. In spite of a severe shortage of labour in China and the pressure of Renminbi currency appreciation, the handbag business will be full of challenges in the coming year. Nevertheless, the Group will strive to design various styles of products to meet market needs, explore new customers, enhance the production processes and reinforce internal controls in a bid to increase its profitability.

Furthermore, chemical business will continue to expand and to focus on the PRC domestic market. The forth phase of the production facilities will commence production in March 2011, where the output is expected to increase by 40,000 tons of chloromethane products and 60,000 dry tons caustic soda, as such the total yearly production capacity will reach 160,000 tons of chloromethane products, 220,000 dry tons caustic soda and 120,000 tons hydrogen peroxide. As to the new product, the Group will develop perchloroethylene to increase its product varieties. The Group will construct a chemical products pier in Changshu for our own use to lower the logistic costs of the Group. Moreover, the Group has entered into a land use rights transfer agreement with the Ruichang City Government to obtain the state-owned land use rights to an area of around 1241 mu, for medium to long term development.

The management will, as it has always been, execute step-by-step the established market policies and strategies for business development and be fully devoted to generate favourable returns for the shareholders.

## **FINANCIAL REVIEW**

### **RESULTS OF OPERATION**

Revenue and net profit attributable to equity holders of the Company for the year ended 31 December 2010 was HK\$2,138.8 million and HK\$457.5 million representing an increase of 52.4% and 95.7% respectively, as compared to HK\$1,403.4 million and HK\$233.8 million respectively for the last year. The basic earnings per share for the year 31 December 2010 was HK\$ 55.5 cents as compared to HK28.3 cents for the year ended 31 December 2009. These excellent achievements are the results of tremendous growth of our chemical business and the efforts of our staff.

#### **Handbag business**

For the year ended 31 December 2010, the handbag business has achieved a revenue of HK\$853.5million and a net profit of HK\$100.8, representing an increase of 17.3% in revenue and a slight decrease of 5.7% in net profit, as compared to HK\$727.6million and HK\$106.9million respectively for the year ended 31 December 2009. Its net profit margin was 11.8% for the year ended 31 December 2010 and was fairly stable as compared to the year ended 31 December 2009. Same as previous years, the handbag business was able to maintain a stable profit and cash contribution through continuing enhancement of products design and production flows, further strengthening the customers base, and adopting more effective cost controls measures.

#### **Chemical business**

For the year ended 31 December 2010, the chemical business has achieved a revenue of HK\$1,285.3million and a net profit of HK\$356.7million, representing an increase of 90.2% and 181.1% respectively, as compared to HK\$675.9 million and HK\$126.9 million respectively for the last financial year. The increase in revenue was mainly due to the increased selling price of our main products, methylene chloride and chloroform (“CMS”), as well as the full year commercial operation of our 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> CMS production lines with total actual output of approximately 148,000 tons for the current financial year (2009: approx.119,000 tons) At 31 December 2010, our new 4<sup>th</sup> CMS production lines with designed capacity of 40,000 tons per annum was in the final stage of installation and it is expected to start its commercial operation in March 2011.

During the year, the average selling price of our main chemical products, methylene chloride and chloroform, was increased by more than 80% to approximately RMB4,970 and RMB4,920 respectively due to the keen market demand. Raw materials which mainly include salt and methanol are the largest items of our chemical production costs and their purchase price were maintained at a fairly stable level throughout the year. As a result, the gross profit margin of our chemical business was significantly increased to 44.5% for the year ended 31 December 2010 as compared with 29.5% for the year ended 31 December 2009.



### ***Chemical Business - Distribution and selling expenses and administrative expenses***

The distribution and selling expenses and administrative expenses of our chemical business increased by approximately 25.8% and 303.8% from HK\$35.7 million and HK\$26.1million for the year ended 31 December 2009 to HK\$44.9 million and HK\$105.4 million for the year ended 31 December 2010, respectively as a result of the expansion and the increase in the revenue of chemical business during the year. The distribution and selling expenses and administrative expenses represented about 11.7% of the revenue for the year ended 31 December 2010, and was comparable to 9.2% for the year ended 31 December 2009. .

### ***Chemical Business - Finance costs***

The finance costs incurred for the chemical business was HK\$8.8 million for the year ended 31 December 2010 as compared to HK\$ 11.4 million for the year ended 31 December 2009. The decrease was mainly due to the decrease in average amount of outstanding bank and other borrowings and interest rates during the year.

## **INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER**

The inventory turnover of the Group maintained at a stable level of 38 days for the year ended 31 December 2010 as compared to 44 days for the year ended 31 December 2009.

Due to the stringent credit control, the average collection period was controlled within a favourable level of 34 days for the year ended 31 December 2010 as compared to 36 days for the year ended 31 December 2009 which is in line with the normal credit terms of 0 days to 90 days granted by the Group to its customers.

The Group's creditors' turnover days were 58 days for the year ended 31 December 2010 as compared to 66 days for the year ended 31 December 2009 which is in line with the normal credit terms of 30 days to 90 days granted by the suppliers to the group.

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

As at 31 December 2010, the total equity of the Group was HK\$1,377 million (2009: HK\$925 million), the Group's current assets were HK\$870 million (2009: HK\$361 million) and current liabilities were HK\$828 million (2009: HK\$595 million). As at 31 December 2010, the Group had bank balances of HK\$393 million which was placed as short term deposits with major leading banks in Hong Kong and the PRC.

The Group generally finances its operations with internally generated cash flows while part of the capital expenditure of the chemical business was financed by credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2010, the Group had outstanding bank borrowings of HK\$521 million (2009: HK\$372 million). Due to the completion of chemical production facilities and decrease in capital expenditure, the Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) has significantly decreased from 0.33 as at 31 December 2009 to 0.09 as at 31 December 2010.

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.

## **CAPITAL COMMITMENTS**

As at 31 December 2010, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and acquisition of land use rights in amount of HK\$17.5 million and HK\$23.1 million respectively.

## **PLEDGE OF ASSETS**

As at 31 December 2010, the Group did not have assets pledged for general facilities.

## **HUMAN RESOURCES**

At 31 December 2010, the Group had a workforce of more than 5,500 people and 700 people for its respective handbag and chemical business. 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 2010, 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 2010 except where stated and explained below.

The Group has an Executive Chairman. No individual has been appointed as a 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 has reviewed with management and the Group's external auditors, Messrs. Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of connected transactions and the consolidated financial statements.

## **ANNUAL GENERAL MEETING**

It is proposed that the Annual General Meeting of the Company will be held on 9 May 2011. 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, 21 February 2011

*As at the date of this announcement, the Board comprises of 4 executive directors, namely, Ms. Wai Siu Kee, Ms. Poon Lai Ming, Mr. Lee Man Yan and Mr. Kung Phong, and 3 independent non-executive directors, namely, Mr. Wong Kai Tung, Tony, Mr. Wan Chi Keung, Aaron BBS JP and Mr. Heng Victor Ja Wei.*