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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 2016**

**FINANCIAL HIGHLIGHTS**

- Revenue increased by 1.9% to HK\$810 million.
- Net profit decreased by 26.9% to HK\$119 million.
- Gross profit margin decreased from 37.5% to 36.6%.
- Net profit margin was 14.7%.
- Basic earnings per share decreased from HK19.8 cents to HK14.5 cents.
- Declared interim dividend of HK5 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 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

	<i>Notes</i>	Six months ended 30 June	
		<u>2016</u>	<u>2015</u>
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3	810,106	794,803
Cost of sales		<u>(513,501)</u>	<u>(496,697)</u>
Gross profit		296,605	298,106
Other income	4	33,430	59,747
Selling and distribution costs		(58,171)	(43,305)
General and administrative expenses		(75,750)	(58,598)
Research and administrative cost		(21,185)	(36,440)
Finance costs	5	(6,965)	(11,270)
Share of loss of joint ventures		<u>(1,580)</u>	<u>(2,428)</u>
Profit before taxation		166,384	205,812
Income tax expense	6	<u>(47,134)</u>	<u>(42,699)</u>
<b>Profit for the period</b>	7	<u>119,250</u>	<u>163,113</u>
<b>Other comprehensive(expenses) income :</b>			
<b>Items that will not be reclassified to profit or loss :</b>			
Exchange differences arising from translation		-	261
Net (loss) gain on hedging instruments in cash flow hedges		<u>(18)</u>	<u>87</u>
Other comprehensive (expenses) income for the period		<u>(18)</u>	<u>348</u>
<b>Total comprehensive income for the period</b>		<u>119,232</u>	<u>163,461</u>
Earnings per share :			
- Basic (HK cents)	9	<u>14.5</u>	<u>19.8</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2016**

	<i>Notes</i>	<b>30.06.2016</b> (Unaudited) <i>HK\$'000</i>	31.12.2015 (Audited) <i>HK'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	3,400,603	3,295,041
Prepaid lease payments		121,257	122,609
Investment property		46,900	46,901
Intangible assets		2,987	3,570
Deposits paid for the acquisition of property, plant and equipment		85,613	48,964
Interests in joint ventures		17,579	19,158
Other deposits		99,387	99,387
Deferred tax asset		23,526	23,780
		<u>3,797,852</u>	<u>3,659,410</u>
<b>CURRENT ASSETS</b>			
Inventories	11	188,976	206,715
Prepaid lease payments		3,222	3,222
Trade and other receivables	12	424,556	379,206
Tax recoverable		14,371	11,976
Loan to a joint venture		95,365	93,652
Amount due from a joint venture		16,965	15,138
Bank balances and cash		67,208	252,721
		<u>810,663</u>	<u>962,630</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	330,125	301,886
Amounts due to related companies		2,896	3,793
Taxation payable		53,856	42,517
Derivative financial instruments		202	42
Bank borrowings - due within 1 year		360,017	611,444
		<u>747,096</u>	<u>959,682</u>
<b>NET CURRENT ASSETS</b>		<u>63,567</u>	<u>2,948</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,861,419</u>	<u>3,662,358</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings - due after 1 year		1,402,055	1,250,390
Other payables		35,104	65,506
Derivative financial instruments		-	184
		<u>1,437,159</u>	<u>1,316,080</u>
<b>NET ASSETS</b>		<u>2,424,260</u>	<u>2,346,278</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	82,500	82,500
Reserves		2,341,760	2,263,778
		<u>2,424,260</u>	<u>2,346,278</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Share capital	Share premium	Non-distribu- table reserve	Safety fund reserve	Translation reserve	Hedging reserve	Share options reserve	Special reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000 (note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note ii)	HK\$'000	HK\$'000
At 1 January 2015 (audited)	82,500	20,307	251,619	17,588	130,701	(816)	163,430	(97,362)	1,729,996	2,297,963
Profit for the period	-	-	-	-	-	-	-	-	163,113	163,113
Other comprehensive (expense) income for the period	-	-	-	-	261	87	-	-	-	348
Total comprehensive (expense) income for the period	-	-	-	-	261	87	-	-	163,113	163,461
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(66,000)	(66,000)
Release of reserve for share options lapsed during the period	-	-	-	-	-	-	(163,430)	-	163,430	-
Transfer to non-distributable reserve	-	-	20,532	-	-	-	-	-	(20,532)	-
<b>At 30 June 2015 (unaudited)</b>	<b>82,500</b>	<b>20,307</b>	<b>272,151</b>	<b>17,588</b>	<b>130,962</b>	<b>(729)</b>	<b>-</b>	<b>(97,362)</b>	<b>1,970,007</b>	<b>2,395,424</b>
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) income for the period	-	-	-	-	-	(18)	-	-	-	(18)
Total comprehensive (expense) income 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)	-
<b>At 30 June 2016 (unaudited)</b>	<b>82,500</b>	<b>20,307</b>	<b>305,772</b>	<b>20,348</b>	<b>32,680</b>	<b>(202)</b>	<b>-</b>	<b>(97,362)</b>	<b>2,060,217</b>	<b>2,424,260</b>

*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 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

### (a) Operating segments

Information reported to the Chief Executive Officer of the Company, being the 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:

	<b><u>Revenue from</u></b> <b><u>external customers</u></b> <b>Six months ended 30</b> <b>June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$’000</i></b>	<b><i>HK\$’000</i></b>
PRC	<b><u>810,106</u></b>	<b><u>794,803</u></b>

(c) **Revenue from major products**

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

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Chloromethane products	<b>247,290</b>	326,323
Caustic soda	<b>389,762</b>	327,605
Hydrogen peroxide	<b>29,701</b>	57,644
Others	<b>143,353</b>	83,231
	<b><u>810,106</u></b>	<b><u>794,803</u></b>

(d) **Information about major customers**

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

**4. OTHER INCOME**

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Bank interest income	<b>1,228</b>	<b>10,569</b>
Government grant	<b>17,395</b>	<b>32,763</b>
Others	<b>14,807</b>	<b>16,415</b>
	<b><u>33,430</u></b>	<b><u>59,747</u></b>

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Interest on bank borrowings wholly repayable within five years	<b>27,733</b>	29,678
Amount capitalized to property, plant and equipment	<b>(21,069)</b>	(19,568)
Net adjustment on interest rate swaps designated as cash flow hedges of floating rate debt	<b>301</b>	1,160
	<b><u>6,965</u></b>	<b><u>11,270</u></b>

**6. INCOME TAX EXPENSE**

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
The charge comprises :		
Current tax :		
PRC Enterprise Income Tax ("EIT")	<b>46,881</b>	30,585
Deferred tax liability	<b>-</b>	11,850
Deferred tax:		
Current period	<b>253</b>	264
	<b><u>47,134</u></b>	<b><u>42,699</u></b>

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 2015 and 2016, 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.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

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

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Profit for the period has been arrived at after charging:		
Directors' emoluments	4,885	4,840
Other staff costs	77,982	67,247
Retirement benefit schemes contributions (excluding directors)	4,018	3,673
Total staff costs	<u>86,885</u>	<u>75,760</u>
Amortisation of prepaid lease payments	1,352	838
Amortisation of intangible assets	584	608
Cost of inventories recognised as expenses	513,501	496,697
Depreciation of property, plant and equipment	<u>87,091</u>	<u>91,049</u>

## 8. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Final dividend paid during the period:		
2015 final dividend HK5.0 cents per share (2014: HK8.0 cents)	<u>41,250</u>	<u>66,000</u>
Interim dividend declared subsequent to period end:		
2016 interim dividend HK5.0 cents per share (2015: HK7.0 cents)	<u>41,250</u>	<u>57,750</u>

The Board has declared that an interim dividend of HK5.0 cents (2015: HK7.0 cents) per share for the six months ended 30 June 2016 to shareholders whose names appear in the Register of Members on 17 August 2016.

## 9. 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>2016</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>119,250</u>	<u>163,113</u>
	<i>Number of</i>	<i>Number of</i>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>825,000,000</u>	<u>825,000,000</u>

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$194 million (2015: HK\$454 million) on property, plant and equipment to expand its operation.

## 11. INVENTORIES

	At	At
	<u>30.06.2016</u>	<u>31.12.2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	101,181	123,889
Work in progress	14,670	12,044
Finished goods	73,125	70,782
	<u>188,976</u>	<u>206,715</u>



## 12. 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\$176,424,000 (31.12.2015: HK\$132,322,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At <b><u>30.06.2016</u></b> <i>HK\$'000</i>	At <u>31.12.2015</u> <i>HK\$'000</i>
Not exceeding 30 days	128,589	102,176
31 to 60 days	32,083	17,469
61 to 90 days	8,515	5,219
Over 90 days	7,237	7,458
	<u>176,424</u>	<u>132,322</u>
Prepayment, Deposit and other receivables	94,403	53,105
Value-added tax receivables	153,729	193,779
	<u><b>424,556</b></u>	<u>379,206</u>

## 13. 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\$162,409,000 (31.12.2015: HK\$80,707,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	At <b><u>30.06.2016</u></b> <i>HK\$'000</i>	At <u>31.12.2015</u> <i>HK\$'000</i>
Not exceeding 30 days	122,287	56,757
31 to 60 days	19,806	9,016
61 to 90 days	3,081	3,188
Over 90 days	17,235	11,746
	<u>162,409</u>	<u>80,707</u>
Receipt in advance	36,164	41,122
Construction payable	107,108	153,135
Other payables and accruals	59,548	92,428
	<u><b>365,229</b></u>	<u>367,392</u>

The balance of construction costs payable comprises non-current construction costs payables of HK\$35,104,000 (31.12.2015: 65,506,000).

#### 14. SHARE CAPITAL

	<u>Number of ordinary shares</u>	<u>Amount HK\$'000</u>
Ordinary shares of HK\$0.1 each:		
Authorised:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	<u>825,000,000</u>	<u>82,500</u>

#### 15. CAPITAL COMMITMENTS

	At	At
	<u>30.06.2016 HK\$'000</u>	<u>31.12.2015 HK\$'000</u>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition:		
- property, plant and equipment	282,316	189,935
- intangible assets	-	8,976

#### 16. CONNECTED AND RELATED PARTY TRANSACTIONS

<u>Connected parties</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Six months ended 30 June</u>	
			<u>2016 HK\$'000</u>	<u>2015 HK\$'000</u>
Lee & Man Paper Manufacturing Co Ltd.	A company beneficially owned and controlled by Mr. Lee Wan Keung	Electricity & steam fee paid Fuel expense paid Rental expense paid Sales of chemical products Electricity & steam fee received Rental income received Purchase of raw materials Acquisition of land	32,027 158 917 7,191 18,346 665 421 -	35,684 135 949 6,792 17,931 728 345 8,340
Lee & Man Management Co Ltd	A company beneficially owned and controlled by Mr. Lee Wan Keung	Management consultant fee paid	<u>298</u>	<u>351</u>

#### 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 declared an interim dividend of HK5.0 cents per share for the six months ended 30 June 2016 to shareholders whose names appear on the Register of Members on 17 August 2016. It is expected that the interim dividend will be paid around 25 August 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 15 August 2016 to 17 August 2016, 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 August 2016.

## **BUSINESS REVIEW**

For the six months ended 30 June 2016, the Group recorded a revenue of approximately HK\$810 million, increased by 1.9% as compared to last corresponding period; and a net profit for the period of approximately HK\$119 million, representing a decrease of 26.9% year on year.

The Group's gross profit margin was 36.6%, decreased by 0.9 percentage point as compared to the same period last year and net profit margin of 14.7% which was decreased by 5.8 percentage points for the period.

## **PROSPECTS**

The Group has completed the construction of the new Jiangxi plant. The first phase production line has been officially put into production and has contributed profit to the Group. The second phase production line is still undergoing the commissioning stage and is expected to operate in succession at the end of 2016.

In addition, the Group has committed to new product research and development, is going to devote more resources in employing 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 management expects that the Group can be able to develop new products successfully in the first quarter of the coming year to meet the trend of refined chemical development.

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 2016 was approximately HK\$2,424 million (31.12.2015: HK\$2,346 million). As at 30 June 2016, the Group had current assets of approximately HK\$811 million (31.12.2015: HK\$963million) and current liabilities of approximately HK\$747 million (31.12.2015: HK\$960 million). The current ratio was 1.09 as at 30 June 2016 (31.12.2015: 1.00).

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 2016, the Group had outstanding bank borrowings of approximately HK\$1,762 million (31.12.2015: HK\$1,862 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 30 June 2016, the Group maintained bank balances and cash of approximately HK\$67 million (31.12.2015: HK\$253 million). The Group's net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) was 70% as at 30 June 2016 (31.12.2015: 69%).

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 2016, the Group had a workforce of around 1,700 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 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 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 2016.

## **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, 1 August 2016

*As at the date of this announcement, the Board comprises five executive directors, namely, Ms Wai Siu Kee, Mr Lee Man Yan, Professor Chan Albert Sun Chi, Mr Yang Zuo Ning and Ms Wong Yuet Ming, 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.*