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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 2018

FINANCIAL HIGHLIGHTS

- Revenue of HK\$1,953 million for the period, increased by 55.9% as compared to last period.
- Net profit of HK\$545 million for the period, increased by 125.6% as compared to last period.
- Gross profit margin for the period was 48.8%, net profit margin was 27.9%.
- Basic earnings per share for the period was HK66.1 cents, with proposed interim dividend of HK23 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 2018 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 2018

		Six months ended 30 June	
	<i>Notes</i>	2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3&4	1,953,247	1,252,591
Cost of sales		(1,000,828)	(719,509)
Gross profit		952,419	533,082
Other income	5	44,797	14,218
Other gains and losses	6	4,997	(514)
Selling and distribution costs		(108,787)	(74,471)
General and administrative expenses		(105,312)	(81,386)
Research and development cost		(77,064)	(45,334)
Finance costs		(45,279)	(37,004)
Net exchange gains		3,174	10,385
Share of loss of joint ventures		(33)	(470)
Share of loss of an associate		(16)	–
Profit before taxation		668,896	318,506
Income tax expense	7	(124,117)	(77,024)
Profit for the period	8	544,779	241,482
Other comprehensive income (expenses):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation		(10,131)	24,076
Share of other comprehensive (expenses) income of joint ventures and an associate		(425)	255
Other comprehensive (expenses) income for the period		(10,556)	24,331
Total comprehensive income for the period		534,223	265,813

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
	<i>Notes</i>	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Profit (loss) for the period attributable to:			
Owners of the Company		545,354	241,482
Non-controlling interests		(575)	–
		<u>544,779</u>	<u>241,482</u>
Total comprehensive income (expenses) for the period attributable to:			
Owners of the Company		534,754	265,813
Non-controlling interests		(531)	–
		<u>534,223</u>	<u>265,813</u>
Earnings per share:	<i>10</i>		
– Basic (HK cents)		<u>66.1</u>	<u>29.3</u>
– Diluted (HK cents)		<u>63.7</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	<i>Notes</i>	30.06.2018 (Unaudited) HK\$'000	31.12.2017 (Audited) HK'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,921,898	3,825,753
Prepaid lease payments		153,279	155,023
Intangible assets		107,218	108,833
Deposits paid for the acquisition of property, plant and equipment		70,484	93,131
Interests in joint ventures		17,413	17,445
Interest in an associate		11,733	1,162
Loan to a joint venture		96,865	96,865
Deferred tax asset		24,616	24,893
Goodwill		2,809	2,809
		4,406,315	4,325,914
CURRENT ASSETS			
Inventories	12	456,513	424,217
Properties under development for sale		118,614	89,298
Prepaid lease payments		4,462	4,462
Trade and other receivables	13	808,568	512,133
Amounts due from a joint venture		15,901	16,214
Amounts due from related companies		18,994	15,731
Bank balances and cash		333,479	467,506
		1,756,531	1,529,561
CURRENT LIABILITIES			
Trade and other payables	14	493,462	478,706
Amounts due to related companies		5,433	–
Taxation payable		57,141	41,243
Deferred tax liabilities		13,690	–
Bank borrowings – due within 1 year		761,454	601,182
		1,331,180	1,121,131
NET CURRENT ASSETS		425,351	408,430
TOTAL ASSETS LESS CURRENT LIABILITIES		4,831,666	4,734,344

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AT 30 JUNE 2018

	<i>Notes</i>	30.06.2018 (Unaudited) <i>HK\$'000</i>	31.12.2017 (Audited) <i>HK'000</i>
NON-CURRENT LIABILITIES			
Other payables	14	45,615	28,494
Deferred tax liabilities		11,699	41,815
Bank borrowings – due after 1 year		1,294,487	1,569,601
		1,351,801	1,639,910
NET ASSETS			
		3,479,865	3,094,434
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		3,385,835	2,999,873
Equity attributable to owners of the Company		3,468,335	3,082,373
Non-controlling interests		11,530	12,061
Total Equity		3,479,865	3,094,434

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”).

The functional currency of the Company is Renminbi (“RMB”), while the condensed consolidated financial statements are presented in Hong Kong dollars (“HK dollars”) as the Company is listed in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

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 2018 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, certain new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and Interpretations issued by the HKICPA that are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statement.

The application of the new and 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.

HKFRS 9 Financial Instruments/HKFRS 15 Revenue from Contracts with Customers

The Group has performed an assessment on the impact of the adoption of HKFRS 9 and HKFRS 15 respectively and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

3. REVENUE

All the Group’s revenue for the period is derived from manufacture and sales of chemical products.

4. SEGMENT INFORMATION

(a) Operating segments

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 maker (“CODM”), being the Chairman of the Company, in order to allocate resources to segments and to assess their performance. The CODM reviews the Group’s profit as a whole, which is generated solely from the manufacture and sale of chemical products and determined in accordance with the Group’s accounting policies, for performance assessment. Therefore no separate segment information is prepared by the Group.

(b) Geographical information

The Group's operations are located in the PRC. Most of the Group's revenue from external customers is derived from the PRC and most of the Group's non-current assets are located in the PRC for both periods.

(c) Revenue from major products

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Caustic soda	894,041	643,387
Chloromethane products	419,446	292,635
Polymers	235,222	185,397
Hydrogen peroxide	198,453	43,290
Fluorochemical products	93,262	61,620
Styrene-acrylic latex surface sizing agent	35,136	3,568
Others	77,687	22,694
	<u>1,953,247</u>	<u>1,252,591</u>

(d) Information about major customers

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

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Government grants	21,895	4,764
Electricity and steam income	12,380	4,744
Scrap sales	3,727	2,392
Bank interest income	3,438	1,062
Rental income	1,317	966
Interest income from a joint venture	250	231
Others	1,790	59
	<u>44,797</u>	<u>14,218</u>

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Net gain on settlement of derivative financial instruments	8,830	–
Loss on disposal of property, plant and equipment	(3,833)	(502)
Net loss from changes in fair value of derivative financial instruments	–	(12)
	<u>4,997</u>	<u>(514)</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	99,093	59,862
Withholding tax on dividend income	10,540	15,398
Deferred tax expenses – Current period	14,484	1,764
	<u>124,117</u>	<u>77,024</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 subsidiaries in PRC is 25%.

For the period ended 30 June 2017 and 30 June 2018, Jiangsu Lee & Man Chemical Limited (“Jiangsu L&M”) was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New Technology Enterprise. For the period ended 30 June 2018, Jiangxi Lee & Man Chemical Limited (“Jiangxi L&M”) was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New Technology 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.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Directors' emoluments	27,378	7,675
Other staff costs:		
Salaries and other benefits (excluding directors)	110,769	88,196
Retirement benefit schemes contributions (excluding directors)	7,333	5,663
	<u>145,480</u>	<u>101,534</u>
Total staff costs		
Finance costs:		
Interest on bank borrowings wholly repayable within five years	45,488	37,977
Less: amounts capitalised to property, plant and equipment (<i>note</i>)	(209)	(973)
	<u>45,279</u>	<u>37,004</u>
Cost of inventories recognised as expenses	1,000,828	719,509
Depreciation of property, plant and equipment	182,805	141,433
Amortisation of prepaid lease payments	1,801	1,283
Amortisation of intangible assets	1,986	561
	<u>186,592</u>	<u>143,277</u>
Total depreciation and amortisation		
Capitalised in inventories	(162,564)	(124,887)
	<u>24,028</u>	<u>18,390</u>

note: During the period ended 30 June 2018, certain borrowing costs capitalised arose from the specific borrowings and were calculated by applying a capitalisation rate of 4.75% (2017: 4.75%) per annum to expenditures on qualifying assets.

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Final dividend paid during the period:		
2017 final dividend HK20.0 cents per share (2016: HK4.0 cents)	<u>165,000</u>	<u>33,000</u>
Interim dividend declared subsequent to period end:		
2018 interim dividend HK23.0 cents per share (2017: HK10.0 cents)	<u>189,750</u>	<u>82,500</u>

The Board has declared that an interim dividend of HK23.0 cents (2017: HK10.0 cents) per share for the six months ended 30 June 2018 to shareholders whose names appear in the Register of Members on 20 August 2018.

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	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>545,354</u>	<u>241,482</u>
	<i>Number of Shares</i>	<i>Number of 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 (<i>note</i>)	<u>31,832,251</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>856,832,251</u>	<u>825,000,000</u>

Note: No diluted earnings per share for the period end 30 June 2017 were presented as there were no potential ordinary share in issue during the period.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, there were additions of approximately HK\$287 million (2017: HK\$274 million) on property, plant and equipment to expand the operation.

12. INVENTORIES

	At 30.06.2018 <i>HK\$'000</i>	At 31.12.2017 <i>HK\$'000</i>
	Raw materials and consumables	254,776
Work in progress	37,425	28,299
Finished goods	<u>164,312</u>	<u>122,961</u>
	<u>456,513</u>	<u>424,217</u>

13. TRADE AND OTHER RECEIVABLES

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

Included in the balance are trade and bills receivables of approximately HK\$601,508,000 (31.12.2017: HK\$380,486,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2018 <i>HK\$'000</i>	At 31.12.2017 <i>HK\$'000</i>
Not exceeding 30 days	245,904	252,281
31 to 60 days	116,979	46,563
61 to 90 days	99,339	26,895
91 to 120 days	93,336	31,165
Over 120 days	45,950	23,582
	<hr/>	<hr/>
Trade and bills receivables	601,508	380,486
Prepayments and deposit to suppliers	160,871	85,771
Value-added tax receivables	12,314	35,291
Other receivables	33,875	10,585
	<hr/>	<hr/>
Total trade and other receivables	808,568	512,133
	<hr/>	<hr/>

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\$182,935,000 (31.12.2017: HK\$124,909,000). The aged analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	At 30.06.2018 <i>HK\$'000</i>	At 31.12.2017 <i>HK\$'000</i>
Not exceeding 30 days	110,225	79,610
31 to 60 days	14,018	18,230
61 to 90 days	18,251	4,447
Over 90 days	40,441	22,622
Trade and bills payables	182,935	124,909
Construction costs payable and accruals	194,189	140,761
Receipt in advance	60,046	88,124
Other payables	50,584	96,897
Other accruals	36,524	30,915
Value-added tax accruals	14,799	25,594
Total trade and other payables	539,077	507,200
Analysed for reporting purposes as:		
Non-current liabilities	45,615	28,494
Current liabilities	493,462	478,706
	539,077	507,200

As at 30 June 2018, the balance of other payables comprised a non-current deferred income, amounting to HK\$45,615,000 (31.12.2017: HK\$28,494,000) received from the PRC government for an innovative technology project.

15. 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 HK 23 cents per share for the six months ended 30 June 2018 to shareholders whose names appear on the Register of Members on 20 August 2018. It is expected that the interim dividend will be paid around 30 August 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 August 2018 to 20 August 2018, 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 pm on 15 August 2018.

BUSINESS REVIEW

For the six months ended 30 June 2018, the Group recorded a revenue of approximately HK\$1,953 million, increased by 55.9% as compared to last corresponding period; and a net profit for the period of approximately HK\$545 million, representing an increase of 125.6% year on year.

The Group's gross profit margin was 48.8%, increased by 6.2 percentage points as compared to last corresponding period and net profit margin of 27.9% which was increased by 8.6 percentage points for the period.

In the first half of 2018, due to national environmental protection policy and supply-side structural reform in the chemical industry, there was high demand for the Group's products from the downstream clients. At the same time, sales volume and price increased when compared with the last corresponding period, which led to the increase of the Group's overall profit margin.

PROSPECTS

In the second half of this year, the Group will increase the caustic soda production at the Jiangxi plant. After the expansion, the Group can produce 520,000 dry tons of caustic soda per year. Also, the new plant in Zhuhai which located at Gaolan Port is currently under construction. The plant will produce Lithium battery electrolyte additives and is expected to start production in the third quarter of 2019.

In response to stricter policies of production safety and environmental protection in the PRC, the management will strengthen production management and equipment maintenance of the plants, and support online inspections executed by the local environmental departments. At the same time, the Group embraces the concept of "green manufacturing" and uphold its social responsibilities by practising clean, efficient and low carbon emission production.

To meet the market demand and support the development of fine chemicals, the Group continues to strengthen its R&D and new product development capabilities through investment in equipment and hiring experienced chemistry experts.

In addition, the Group will gradually implement business automation management. Most of the operation procedures are executed by digital terminals. The ERP system of the Group can then generate accurate information to various departments and management to increase their efficiency, contribute to effective monitoring and cost control.

As always, our management team will leverage on our internal technical innovation and scientific research as well as develop in a pragmatic and aggressive approach and continue its persistent efforts to bring desirable return to the shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the total shareholders' equity of the Group was approximately HK\$3,480 million (31.12.2017: HK\$3,094 million), current assets were approximately HK\$1,756 million (31.12.2017: HK\$1,530 million) and current liabilities were approximately HK\$1,331 million (31.12.2017: HK\$1,121 million). The current ratio was 1.32 as at 30 June 2018 (31.12.2017: 1.36).

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 2018, the Group had outstanding bank borrowings of approximately HK\$2,056 million (31.12.2017: HK\$2,171 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 30 June 2018, the Group maintained bank balances and cash of approximately HK\$333 million (31.12.2017: HK\$468 million). The Group's net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) was 49.5% as at 30 June 2018 (31.12.2017: 55.0%).

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 AND OTHER COMMITMENTS

As at 30 June 2018, the Group had capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment in amount of approximately HK\$298 million.

HUMAN RESOURCES

As at 30 June 2018, the Group had a workforce of around 1,900 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 2018, 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 2018.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the result of the Group for the period ended 30 June 2018 and has discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 31 July 2018

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.