

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue of HK\$3,877 million for the year, increased by 30.4% as compared to last year.
- Net profit of HK\$872 million for the year, increased by 24.1% as compared to last year.
- Gross profit margin for the year was 46.8%, net profit margin was 22.5%.
- Basic earnings per share for the year was HK105.8 cents, with proposed final dividend of HK15 cents per share.

FINANCIAL RESULTS

The board of directors (the “Directors”) of Lee & Man Chemical Company 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 2018 together with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	3&4	3,876,777	2,973,747
Cost of sales		(2,061,551)	(1,574,570)
Gross profit		1,815,226	1,399,177
Other income	5	75,921	47,664
Other gains and losses	6	9,974	6,235
Selling and distribution costs		(231,445)	(181,804)
General and administrative expenses		(225,873)	(192,558)
Research and development cost		(158,005)	(125,025)
Finance costs		(93,530)	(81,809)
Net exchange (loss) gain		(35,445)	59,314
Share of profit (loss) of joint ventures		14	(228)
Share of profit (loss) of an associate		96	(5)
Profit before taxation		1,156,933	930,961
Income tax expense	7	(284,558)	(227,940)
Profit for the year	8	872,375	703,021
Other comprehensive (expense) income			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation		(153,140)	136,618
Other comprehensive (expense) income from share of joint ventures and an associate		(792)	992
Other comprehensive (expense) income for the year		(153,932)	137,610
Total comprehensive income for the year		718,443	840,631

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Profit (loss) for the year attributable to:			
Owners of the Company		872,641	703,053
Non-controlling interests		(266)	(32)
		<u>872,375</u>	<u>703,021</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		719,044	840,535
Non-controlling interests		(601)	96
		<u>718,443</u>	<u>840,631</u>
Earnings per share	9		
Basic (HK cents)		<u>105.8</u>	<u>85.2</u>
Diluted (HK cents)		<u>104.3</u>	<u>85.2</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,847,762	3,825,753
Prepaid lease payments		143,511	155,023
Intangible assets		100,618	108,833
Deposits paid for the acquisition of property, plant and equipment		67,958	93,131
Interests in joint ventures		16,665	17,445
Interest in an associate		18,552	1,162
Loan to a joint venture		97,755	96,865
Deferred tax asset		23,233	24,893
Goodwill		2,682	2,809
		<hr/> 4,318,736	<hr/> 4,325,914
CURRENT ASSETS			
Inventories	<i>11</i>	585,919	424,217
Properties under development for sale		145,842	89,298
Prepaid lease payments		4,259	4,462
Trade and other receivables	<i>12</i>	266,143	512,133
Bills receivable		113,020	–
Amount due from a joint venture		14,946	16,214
Amount due from an associate		526	–
Amounts due from related companies		12,115	15,731
Bank balances and cash		593,074	467,506
		<hr/> 1,735,844	<hr/> 1,529,561
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	377,799	478,706
Bills payable		84,377	–
Contract liabilities		50,690	–
Amount due to a related company		757	–
Taxation payable		100,845	41,243
Bank borrowings – due within 1 year		926,519	601,182
		<hr/> 1,540,987	<hr/> 1,121,131
NET CURRENT ASSETS		<hr/> 194,857	<hr/> 408,430
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 4,513,593	<hr/> 4,734,344

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2018

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Other payables	<i>13</i>	47,659	28,494
Deferred tax liabilities		39,576	41,815
Bank borrowings – due after 1 year		947,693	1,569,601
		<u>1,034,928</u>	<u>1,639,910</u>
NET ASSETS		<u>3,478,665</u>	<u>3,094,434</u>
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		3,396,165	2,999,873
Equity attributable to owners of the Company		3,478,665	3,082,373
Non-controlling interests		–	12,061
		<u>3,478,665</u>	<u>3,094,434</u>

Notes:

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office of the Company is disclosed in the section “Corporate Information” to the annual report.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 15	Revenue from Contracts with Customers
HKFRS 9	Financial Instruments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Considerations
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the above new and amendments to HKFRSs and the Interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

Considering the nature of the Group’s principal activities (i.e. manufacture and sale of chemical products), the adoption of HKFRS 15 does not have material impact on the Group’s revenue recognition.

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, advances from customers of HK\$88,124,000 in respect of customer contracts previously included in trade and other payables were reclassified to contract liabilities. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
Current liabilities			
Trade and other payables	478,706	(88,124)	390,582
Contract liabilities	–	88,124	88,124
	<u> </u>	<u> </u>	<u> </u>

HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) model for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at 1 January 2018.

	Debt instruments at fair value through other comprehensive income (“Debt instruments at FVTOCI”) HK\$'000	Financial assets at amortised cost (previously classified as loans and receivables) HK\$'000
Closing balance at 31 December 2017		
– HKAS 39	–	987,387
Effect arising from initial application of HKFRS 9:		
Reclassification		
From loans and receivables to debt instruments at FVTOCI	<u>284,762</u>	<u>(284,762)</u>
Opening balance at 1 January 2018	<u>284,762</u>	<u>702,625</u>

At 31 December 2017, bills receivable of HK\$284,762,000 was accounted for as financial assets at amortised cost and included in “trade and other receivables” in the consolidated statement of financial position. After considering the business model of the Group upon the adoption of HKFRS 15, these bills receivable were reclassified as debt instruments at fair value through other comprehensive income and presented in the consolidated statement of financial position separately under the heading of “bills receivable”. The fair value of bills receivable approximates to their face values and no adjustment was made as at 1 January 2018.

The application of HKFRS 9 has had no significant impact on impairment under ECL model for financial assets of the Group.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective.

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and the Interpretation will have no material impact on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$7,757,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$32,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors anticipate that the application of other new and amendments to HKFRS and Interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE

All the Group's revenue for the year is derived from manufacture and sale 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 makers ("CODMs"), being the Chairman of the Company, in order to allocate resources to segments and to assess their performance. The CODMs review the Group's profit as a whole, which is generated solely from the manufacture and sale of chemical products and is 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 non-current assets are located in the PRC. All the Group's revenue from external customers is derived from the PRC for both years.

(c) Revenue from major products

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Caustic soda	1,684,170	1,515,580
Chloromethane products	949,344	662,833
Polymers	477,405	390,066
Hydrogen peroxide	334,085	159,976
Fluorochemical products	196,247	129,623
Styrene-acrylic latex surface sizing agent	68,123	36,735
Others	167,403	78,934
	<u>3,876,777</u>	<u>2,973,747</u>

(d) Information about major customers

No customers contributed over 10% of the total revenue of the Group in both years.

5. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank interest income	6,567	4,774
Interest income from a joint venture	488	473
Government grants	27,544	14,317
Scrap sales	7,266	6,040
Income from supply of steam and electricity	29,537	19,592
Rental income	2,526	2,139
Others	1,993	329
	<u>75,921</u>	<u>47,664</u>

6. OTHER GAINS AND LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net gain (loss) from changes in fair value of derivative financial instruments	14,285	(12)
Loss on disposal of property, plant and equipment	(4,311)	(673)
Gain from change in fair value of an investment property	–	6,920
	<u>9,974</u>	<u>6,235</u>

7. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	202,044	149,004
Withholding tax on dividend income	90,869	60,120
Overprovision in prior years – EIT	(8,563)	(14,631)
Deferred tax:		
Current year	208	33,447
	<u>284,558</u>	<u>227,940</u>

The Group is primarily operating 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 years ended 31 December 2017 and 2018, Jiangsu Lee & Man Chemical Limited (“Jiangsu L&M”) was entitled to a reduced EIT rate of 15% as they have been qualified as High and New Technology Enterprise. In November 2017 and for the year ended 31 December 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 jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

8. PROFIT FOR THE YEAR

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	52,489	32,897
Other staff costs:		
Salaries and other benefits (excluding directors)	233,034	201,490
Retirement benefit schemes contributions (excluding directors)	15,286	12,711
	<hr/>	<hr/>
Total staff costs	300,809	247,098
Finance costs:		
Interest on bank borrowings wholly repayable within five years	93,823	83,047
Less: amounts capitalised to property, plant and equipment (note)	(293)	(1,238)
	<hr/>	<hr/>
	93,530	81,809
Auditors' remuneration:		
– Audit services	1,575	1,575
– Non-audit services	225	225
Cost of inventories recognised as expenses	2,061,551	1,574,570
Depreciation of property, plant and equipment	348,730	288,955
Amortisation of prepaid lease payments	3,485	2,739
Amortisation of intangible assets	3,598	1,627
	<hr/>	<hr/>
Total depreciation and amortisation	355,813	293,321
Capitalised in inventories	(312,493)	(257,090)
	<hr/>	<hr/>
	43,320	36,231
	<hr/> <hr/>	<hr/> <hr/>

Note: During the year ended 31 December 2018, certain borrowing costs capitalised arose from specific borrowings and were calculated by applying a capitalisation rate of 4.75% (2017: 4.75%) per annum to expenditures on qualifying assets.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$872,641,000 (2017: HK\$703,053,000) and 825,000,000 (2017: 825,000,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue after adjusting for the potential dilutive effect caused by the share options granted under the share option scheme.

Weighted average number of ordinary shares (diluted)

	2018 <i>'000 Shares</i>	2017 <i>'000 Shares</i>
Weighted average number of ordinary shares as at 31 December	825,000	825,000
Effect of deemed issue of shares under the Company's share option scheme	<u>11,071</u>	<u>–</u>
Weighted average number of ordinary shares (diluted) as at 31 December	<u>836,071</u>	<u>825,000</u>

10. DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividends recognised as distributions during the year:		
Final dividend of HK20 cents per share for the year ended 31 December 2017	165,000	–
Interim dividend of HK23 cents per share for the year ended 31 December 2018	189,750	–
Final dividend of HK4 cents per share for the year ended 31 December 2016	–	33,000
Interim dividend of HK10 cents per share for the year ended 31 December 2017	<u>–</u>	<u>82,500</u>
	<u>354,750</u>	<u>115,500</u>

A final dividend of HK15 cents (2017: HK20 cents) per share amounting to HK\$123,750,000 (2017: HK\$165,000,000) in respect of the year ended 31 December 2018 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Raw materials and consumables	388,544	272,957
Work in progress	40,938	28,299
Finished goods	<u>156,437</u>	<u>122,961</u>
	<u>585,919</u>	<u>424,217</u>

12. TRADE AND OTHER RECEIVABLES

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

Included in the balance are trade receivables of HK\$103,288,000 (2017: HK\$95,724,000), and the aged analysis of trade receivables based on invoice date at the end of the reporting period is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Not exceeding 30 days	94,910	83,108
31–60 days	7,107	10,173
61–90 days	477	1,819
91–120 days	184	60
Over 120 days	610	564
	<hr/>	<hr/>
	103,288	95,724
Bills receivable	–	284,762
Prepayments	101,798	77,817
Deposits to suppliers	23,401	7,954
Value-added tax receivables	20,885	35,291
Other receivables	16,771	10,585
	<hr/>	<hr/>
Total trade and other receivables	<u>266,143</u>	<u>512,133</u>

13. TRADE AND OTHER PAYABLES

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The credit period obtained for trade purchases ranged from 7 to 45 days.

Included in trade and other payables is trade payables of HK\$121,102,000 (2017: HK\$124,909,000). The aged analysis of trade payables based on invoice date at the end of the reporting period is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Not exceeding 30 days	69,264	79,610
31–60 days	26,261	18,230
61–90 days	6,977	4,447
Over 90 days	18,600	22,622
	<hr/>	<hr/>
	121,102	124,909
Receipt in advance	–	88,124
Construction costs payables and accruals	109,268	140,761
Value-added tax accruals	40,741	25,594
Other payables	108,265	96,897
Other accruals	46,082	30,915
	<hr/>	<hr/>
Total trade and other payables	<u>425,458</u>	<u>507,200</u>

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Analysed for reporting purposes as		
Non-current liabilities	47,659	28,494
Current liabilities	377,799	478,706
	425,458	507,200

As at 31 December 2018, the balance of other payables included a non-current deferred income, amounting to HK\$35,728,000 (2017: HK\$28,494,000), received from the PRC government for an innovative technology project.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and represented to conform with the current year presentation.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK15 cents per share for the year ended 31 December 2018 to shareholders whose names appear on the Register of Members on 16 May 2019. 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 28 May 2019.

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The annual general meeting (the “AGM”) of the Company is scheduled to be held on 6 May 2019. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 30 April 2019 to 6 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on 29 April 2019.

In relation to the proposed final dividend

The board of directors of the Company has resolved to recommend the payment of a final dividend of HK15 cents per share in cash for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on 16 May 2019 subject to the approval of the shareholders of the Company at the AGM. For ascertaining shareholders’ entitlement to the proposed final dividend, the register of members of the Company will be closed from 10 May 2019 to 16 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on 9 May 2019.

BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded a revenue of HK\$3,877 million, representing an increase of 30.4% as compared to last year; and a net profit of HK\$872 million for the year, representing an increase of 24.1% as compared to last year.

The Group recorded a gross profit margin of 46.8% for the year ended 31 December 2018, representing a moderate decrease of 0.3 percentage points as compared to last year; while the net profit margin was recorded at 22.5%, representing a moderate decrease of 1.1 percentage points as compared to last year.

During the year, the expansion of the styrene-acrylic latex surface sizing agent production line at the Jiangsu factory and the expansions of the caustic soda and the hydrogen peroxide production lines of the Jiangxi factory were successfully put into operation. Benefiting from expansions in the national infrastructure, the demand for downstream chemical products remains strong, and the prices of our primary products, including chloromethane products and hydrogen peroxide, have remained at a high level in the first half of 2018. However, due to the cost pressure from rising raw material prices, profit contribution from the increase in unit prices is partially being offset. However, by focusing on continuously optimizing technical processes, coupled with consistently stringent production management, the Group maintains strong cost control that enables the Group to maintain a similar level of profits for the year.

PROSPECTS

Located at Gaolan Port Economic Zone of the Zhuhai City, the new plant for the production of Lithium battery electrolyte additives is under construction and is expected to commence its production by the end of 2019.

The Group continues its development in refined chemical, and commits to investment in the research and development of new energy products and high value-added products. Intelligent management is progressively being implemented with most of the Group's operational data is now being integrated with the centralized data platform. Departments and management can obtain accurate and appropriate information through ERP system, to improve its work efficiency and to achieve effective monitoring and cost control.

In view of the increasingly strengthening of the safety and environmental protection requirements of the Chinese government, the management will continue to strengthen the production and equipment management in the factories, in order to facilitate the online evaluation of the local environmental protection authorities. At the same time, the Company will strive to promote the concept of green manufacturing, and to practice a clean, efficient and low-carbon development management, so as to be socially responsible through energy conservation and emission reduction.

As always, our management team will leverage our internal technical innovation and scientific research, and to continue its persistent efforts in achieving growth and strengthening the foundation to bring continuous and desirable returns to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue and net profit attributable to equity holders of the Group for the year ended 31 December 2018 was HK\$3,877 million and HK\$872 million respectively, representing an increase of 30.4% and an increase of 24.1%, as compared to HK\$2,974 million and HK\$703 million respectively for the last year.

The basic earnings per share was HK105.8 cents for the year ended 31 December 2018 (2017: HK85.2 cents).

Revenue

The Group recorded an increase of approximately HK\$903 million in revenue for the year ended 31 December 2018 as compared to the last year.

As compared to the last year, the average selling price per ton of caustic soda was approximately RMB1,100, decreased slightly by 1%; the average selling price per ton of methylene chloride and chloroform was approximately RMB3,600 and RMB3,100, increased by approximately 27% and 42% respectively; the average selling price per ton of polytetrafluoroethylene was approximately RMB64,000, increased by 14%.

The actual production output of our primary products for the year (including self-consumption) was approximately 310,000 tons for CMS products, 490,000 tons for 100% dry basis caustic soda, 7,000 tons for polytetrafluoroethylene and 220,000 tons for hydrogen peroxide.

Despite the increase in production volume and selling price of our primary products, the production cost of our primary products are also increasing, contributing to the gross profit margin of the Group for the year ended 31 December 2018 to decrease by 0.3 percentage points, from 47.1% of the last year to 46.8% of the current year, and the net profit margin to decrease from 23.6% of the last year to 22.5% of the current year. The Group will improve profit contributions by maintaining its stable and nearly full-load production, and continuing its cost control through optimizing technical processes.

Selling and distribution costs

Selling and distribution costs for the year ended 31 December 2018 was HK\$231 million, increased by approximately HK\$49 million as compared to HK\$182 million for the past year. The increase for the year was mainly due to the proportional increment in transportation and packaging costs arising from increase in sales volume. The selling and distribution costs represented approximately 6.0% of total revenue for the year ended 31 December 2018, comparable to that of 6.1% of the last year.

Administrative expenses

Administrative expenses for the year ended 31 December 2018 was HK\$226 million, increased by approximately HK\$33 million as compared to HK\$193 million of the last year. The increase for the year mainly attributable to the business expansion, increase of staff salaries, the share option expenses, depreciation of new office and equipment and increase of taxes and surcharges. The administrative expenses represented approximately 5.8% of total revenue for the year, as compared to 6.5% for the last year.

Research and development cost

Research and development costs for the year ended 31 December 2018 were HK\$158 million, representing approximately 4% of the total revenue for the year. During the year, the Company continued to devote its resources to research and development of new products and optimization of technical processes, recruitment of senior scientists and chemical engineers, procurement of equipment and testing materials, so as to maintain the sustainable development of the Group.

Finance costs

The interest expenses incurred for the year ended 31 December 2018 was approximately HK\$94 million, increased by approximately HK\$12 million as compared to HK\$82 million of the last year. The increment was mainly due to the fluctuation of the interest rates and the increased use of trade bills discounting from the banks.

Net exchange loss

The net exchange loss for the year ended 31 December 2018 was approximately HK\$35 million. The net exchange loss of the Group is mainly driven by the depreciation of Renminbi of around 4.7% in 2018.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2018 was 88 days, increased by 12 days as compared to 76 days of the last year.

Due to stringent credit control of the Group, the debtors' turnover days of the Group was controlled at 28 days for the year ended 31 December 2018 as compared to 37 days for the last year, which is in line with the normal credit period of 7 days to 60 days granted to customers of the Group.

The Group's creditors' turnover days was 27 days for the year ended 31 December 2018 as compared to 30 days for the last year, which is in line with the normal credit terms of 7 days to 45 days granted by the suppliers to the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 31 December 2018 was HK\$3,479 million (31.12.2017: HK\$3,094 million). As at 31 December 2018, the Group had current assets of HK\$1,736 million (31.12.2017: HK\$1,530 million) and current liabilities of HK\$1,541 million (31.12.2017: HK\$1,121 million). The current ratio was 1.13 as at 31 December 2018 as compared to 1.36 at 31 December 2017.

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 31 December 2018, the Group had outstanding bank borrowings of HK\$1,874 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 31 December 2018, the Group maintained bank balances and cash of HK\$593 million (31.12.2017: HK\$468 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) as at 31 December 2018 was 36.83% (31.12.2017: 55.04%).

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 31 December 2018, 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 land use rights in amount of approximately HK\$360 million.

HUMAN RESOURCES

At 31 December 2018, the Group had a workforce of around 1,950 people. The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staffs are remunerated based on their work performance, professional experience and prevailing market situation. Remuneration packages comprise salary and bonuses based on individual merits.

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

During the year ended 31 December 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 Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the results of the Group for the year ended 31 December 2018 and has discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 6 May 2019. 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, 11 March 2019

As at the date of this announcement, the Board of the Company comprises 4 executive directors, namely, Ms. Wai Siu Kee, Mr. Lee Man Yan, Professor Chan Albert Sun Chi and Mr. Yang Zuo Ning, 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.