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LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

(Incorporated in the Cayman Islands and its members' liability is limited)

Website: www.leemanchemical.com

(Stock Code: 746)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue increased 67.3% to HK\$5,186 million driven by soaring market price of chemical products
- Profit increased about 1.5 times to HK\$1,288 million in 2021 due to the recovery of gross profit margin
- Gross profit margin increased 8.6 p.p. to 45.1%
- Proposed final dividend of HK32 cents per share; including the interim dividend paid, total dividends for 2021 are HK58 cents per share (2020: HK24 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 2021 together with comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3, 4	5,185,942	3,099,685
Cost of sales		<u>(2,847,018)</u>	<u>(1,968,153)</u>
Gross profit		2,338,924	1,131,532
Other income	5	65,936	96,983
Other gains and losses	6	(4,792)	237
Selling and distribution costs		(233,117)	(201,218)
General and administrative expenses		(299,365)	(223,316)
Research and development cost		(230,888)	(153,789)
Finance costs		(47,623)	(55,851)
Net exchange gain		23,251	42,218
Share of loss of joint ventures		(583)	(8,505)
Share of loss of associates		<u>(662)</u>	<u>(189)</u>
Profit before taxation		1,611,081	628,102
Income tax expense	7	<u>(323,072)</u>	<u>(125,474)</u>
Profit for the year	8	<u>1,288,009</u>	<u>502,628</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation		155,568	240,836
Share of other comprehensive income of joint ventures and associates		<u>5,729</u>	<u>2,427</u>
Other comprehensive income for the year		<u>161,297</u>	<u>243,263</u>
Total comprehensive income for the year		<u>1,449,306</u>	<u>745,891</u>
Earnings per share	9		
– Basic (<i>HK cents</i>)		<u>156.1</u>	<u>60.9</u>
– Diluted (<i>HK cents</i>)		<u>150.9</u>	<u>60.9</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		5,041,104	4,537,826
Right-of-use assets		153,052	153,547
Intangible assets		99,299	98,661
Deposits paid for the acquisition of property, plant and equipment		20,363	55,053
Interests in joint ventures		109,955	105,602
Interests in associates		21,980	21,849
Deferred tax assets		23,372	23,093
Goodwill		2,896	2,793
		<hr/> 5,472,021	<hr/> 4,998,424
CURRENT ASSETS			
Inventories	11	762,475	504,455
Properties for sale		126,792	–
Properties under development		374,001	390,804
Trade and other receivables	12	324,048	296,074
Bills receivable		204,899	134,289
Tax recoverable		196	–
Amount due from a joint venture		15,607	14,966
Amount due from an associate		2,133	620
Amounts due from related companies		10,978	16,492
Bank balances with restricted use		–	36,038
Bank balances and cash		324,882	386,645
		<hr/> 2,146,011	<hr/> 1,780,383
CURRENT LIABILITIES			
Trade and other payables	13	613,221	398,727
Bills payable		–	116,577
Contract liabilities		120,772	135,171
Amount due to a related company		10,004	13,227
Taxation payable		159,892	49,423
Lease liabilities		2,178	2,384
Bank borrowings		432,699	458,663
		<hr/> 1,338,766	<hr/> 1,174,172
NET CURRENT ASSETS		<hr/> 807,245	<hr/> 606,211
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 6,279,266	<hr/> 5,604,635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Other payables	13	36,065	33,344
Lease liabilities		2,190	4,213
Deferred tax liabilities		65,876	50,021
Bank borrowings		600,205	1,073,493
		<u>704,336</u>	<u>1,161,071</u>
NET ASSETS		<u>5,574,930</u>	<u>4,443,564</u>
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		5,492,430	4,361,064
TOTAL EQUITY		<u>5,574,930</u>	<u>4,443,564</u>

Notes:

1. GENERAL

The Company is a limited liability company incorporated in 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 and principal place of business of the Company are 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\$”) as the Company is listed in Hong Kong.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s consolidated financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	<i>Insurance Contracts and the Related Amendments¹</i>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020)¹</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies¹</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018–2020²</i>

- ¹ Effective for annual periods beginning on or after 1 January 2023
- ² Effective for annual periods beginning on or after 1 January 2022
- ³ Effective for annual periods beginning on or after 1 April 2021
- ⁴ Effective for annual periods beginning on or after a date to be determined

Except for below mentioned, the directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2021	2020
	HK\$’000	HK\$’000
Caustic soda	1,532,655	1,075,848
Chloromethane products	1,456,661	716,931
Fluorochemical products	195,935	40,760
Hydrogen peroxide	451,399	394,436
Liquified chlorine	122,908	111,477
Polymers	731,885	460,350
Styrene acrylic latex surface sizing agent	77,482	70,207
Lithium-ion battery additives	20,306	–
Others	402,194	229,676
	<hr/>	<hr/>
Manufacture and sale of chemical products	4,991,425	3,099,685
Sale of properties	194,517	–
	<hr/>	<hr/>
	5,185,942	3,099,685
	<hr/> <hr/>	<hr/> <hr/>

All of the Group’s revenue is recognised at a point in time and derived from the PRC.

4. OPERATING SEGMENT

The Group manages its different businesses by their unique attributes. At 31 December 2020, the Group had only one reportable segment, which is the Group's strategic business unit and principally engaged in manufacture and sale of chemical products.

During the year ended 31 December 2021, the Group established a new business unit in response to the completion and delivery of the residential units in the property development project in Changshu City. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, below describes the operations in each of the Group's identified reportable operating segments as at 31 December 2021:

- Chemical: manufacture and sale of chemical products
- Property: development and sale of properties and rental income from leasing of properties

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable operating segment on the following bases.

Revenue and expenses are allocated to the reportable operating segments with reference to revenue directly generated by those segments and the expenses directly incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before other income, other gains and losses, finance costs, net exchange gain (loss), share of results of joint ventures and associates, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses.

Assets and liabilities are centrally-managed and assessed by the Group's most senior executive management. No segment information on assets and liabilities is therefore presented.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment information below is presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment.

(a) Segment revenues and results

For the year ended 31 December 2021

	Chemical <i>HK\$'000</i>	Property <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	<u>4,991,425</u>	<u>194,517</u>	<u>5,185,942</u>
Segment results	<u>1,620,657</u>	<u>47,358</u>	<u>1,668,015</u>
Unallocated head office and corporate expenses			(92,461)
Other income			65,936
Other gains and losses			(4,792)
Finance costs			(47,623)
Net exchange gain			23,251
Share of results of joint ventures and associates			<u>(1,245)</u>
Profit before tax			<u><u>1,611,081</u></u>

No segmental information for the year ended 31 December 2020 was presented as the Group's revenue and trading results for that period were generated solely from its Chemical operations.

(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. Most of the Group's revenue from external customers is derived from the PRC for both years.

(c) Revenue from major customers

None of the corresponding revenue from customers contribute over 10% of the total revenue of the Group for the years ended 31 December 2021 and 2020.

(d) Other segment information

For the year ended 31 December 2021

	Chemical <i>HK\$'000</i>	Property <i>HK\$'000</i>
Additions to non-current assets (<i>Note</i>)	669,892	4,844
Depreciation	365,387	3,942
Amortisation	6,469	–
	<u>669,892</u>	<u>4,844</u>

Note: Non-current assets excluded goodwill, financial instruments and deferred tax assets.

5. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	4,133	5,354
Interest income from a joint venture	656	627
Government grants	19,393	55,540
Scrap sales	11,584	11,846
Electricity and steam income	16,890	20,852
Rental income	2,770	2,169
Others	10,510	595
	<u>65,936</u>	<u>96,983</u>

6. OTHER GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net (loss) gain from changes in fair value of financial assets at fair value through profit or loss	(3,091)	1,026
Loss on disposal of property, plant and equipment	(1,701)	(789)
	<u>(4,792)</u>	<u>237</u>

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	255,716	108,561
PRC Land Appreciation Tax ("LAT")	26,181	–
PRC withholding tax on dividend income	38,386	14,581
Hong Kong Profits Tax	874	–
Other jurisdictions	741	588
Overprovision in prior years – EIT	(13,689)	(7,718)
Deferred tax – current year	14,863	9,462
	<u>323,072</u>	<u>125,474</u>

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

For the years ended 31 December 2020 and 2021, Jiangsu Lee & Man Chemical Limited ("Jiangsu L&M") and Jiangxi Lee & Man Chemical Limited ("Jiangxi L&M") are entitled to a favourable EIT rate of 15% to 2024 and 2023 respectively, as they have been qualified as High and New Technology Enterprise, which is subject to renewal for every three years.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been levied at progressive rates ranging from 30% to 60% on the appreciation of land value, represented by the excess of sale proceeds of properties over prescribed direct costs. Prescribed direct costs are defined to include costs of land use rights, development and construction costs, as well as certain costs relating to the property development. According to the State Administration of Taxation's official circulars, LAT shall be payable provisionally upon sale of the properties, followed by final ascertainment of the gain at the completion of the properties development.

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

No provision for Hong Kong Profits Tax is made for the year ended 31 December 2020 since there were no assessable profits.

8. PROFIT FOR THE YEAR

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	59,358	50,744
Other staff costs (excluding directors):		
Salaries and other benefits	332,742	261,165
Retirement benefit schemes contributions	14,643	7,608
	<hr/>	<hr/>
Total staff costs	406,743	319,517
Capitalised in inventories	(178,709)	(143,991)
	<hr/>	<hr/>
	228,034	175,526
	<hr/>	<hr/>
Finance costs:		
Interest on bank borrowings	49,346	58,371
Lease liabilities	235	71
Less: amounts capitalised to property, plant and equipment	(1,958)	(2,591)
	<hr/>	<hr/>
	47,623	55,851
	<hr/>	<hr/>
Auditors' remuneration		
– Audit services	2,041	1,800
– Non-audit services	465	355
Cost of inventories recognised as expenses	2,847,018	1,968,153
Depreciation of property, plant and equipment	366,822	341,133
Depreciation of right-of-use assets	6,036	5,414
Amortisation of intangible assets	2,940	2,801
	<hr/>	<hr/>
Total depreciation and amortisation	375,798	349,348
Capitalised in inventories	(318,777)	(298,173)
	<hr/>	<hr/>
	57,021	51,175
	<hr/>	<hr/>

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$1,288,009,000 (2020: HK\$502,628,000) and 825,000,000 (2020: 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.

	2021	2020
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	825,000	825,000
Effect of deemed issue of shares under the Company's share option scheme	28,607	N/A
	<u>853,607</u>	<u>825,000</u>

The computation of diluted earnings per share for 2020 did not assume the exercise of the Company's share options because the adjusted exercise price of those share options was higher than the average market price for shares in that year.

10. DIVIDENDS

	2021	2020
	HK\$'000	HK\$'000
Dividends recognised as distributions during the year:		
Final dividend of HK15 cents per share for the year ended 31 December 2019	–	123,750
Interim dividend of HK7.5 cents per share for the year ended 31 December 2020	–	61,875
Final dividend of HK16.5 cents per share for the year ended 31 December 2020	136,125	–
Interim dividend of HK26 cents per share for the year ended 31 December 2021	214,500	–
	<u>350,625</u>	<u>185,625</u>

A final dividend of HK32 cents (2020: HK16.5 cents) per share amounting to HK\$264,000,000 (2020: HK\$136,125,000) in respect of the year ended 31 December 2021 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Raw materials and consumables	502,407	374,140
Work in progress	53,236	31,943
Finished goods	206,832	98,372
	<u>762,475</u>	<u>504,455</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\$156,907,000 (2020: HK\$105,170,000), and the ageing analysis of trade receivables based on dates of goods receipt notes or goods delivery notes, which is the same as the revenue recognition date, at the end of the reporting period is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Not exceeding 30 days	137,225	95,533
31–60 days	15,609	9,342
61–90 days	3,098	178
91–120 days	920	60
Over 120 days	55	57
	<u>156,907</u>	<u>105,170</u>
Trade receivables	156,907	105,170
Prepayments	87,138	103,366
Deposits to suppliers	33,148	50,359
Value-added tax receivables	37,859	34,081
Other receivables	8,996	3,098
	<u>324,048</u>	<u>296,074</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 is 7 to 45 days.

Included in trade and other payables is trade payables of HK\$187,762,000 (2020: HK\$107,256,000). The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Not exceeding 30 days	137,019	66,847
31–60 days	27,138	13,823
61–90 days	5,430	6,338
Over 90 days	18,175	20,248
	<hr/>	<hr/>
Trade payables	187,762	107,256
Construction costs payable and accruals	251,113	164,345
Other payables	140,742	101,028
Value-added tax accruals	22,355	14,538
Other accruals	47,314	44,904
	<hr/>	<hr/>
Total trade and other payables	649,286	432,071
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Non-current liabilities	36,065	33,344
Current liabilities	613,221	398,727
	<hr/>	<hr/>
	649,286	432,071
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2021, the balance of other payables included a non-current deferred income, amounting to HK\$29,561,000 (2020: HK\$23,877,000), received from the PRC government for an innovative technology project. The amounts will be utilised to the relevant research and development expenses.

As at 31 December 2021, the balance of other payable included an amount of approximately RMB5,300,000 (equivalent to HK\$6,503,000) (2020: approximately RMB8,000,000 (equivalent to HK\$9,467,000)) of remaining consideration payable for the acquisition of the non-controlling interests of a subsidiary in prior years and the amount was expected to be repayable after one year after the reporting period.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK32 cents per share for the year ended 31 December 2021 to shareholders whose names appear on the Register of Members on 23 May 2022. 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 2 June 2022.

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 12 May 2022. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 6 May 2022 to 12 May 2022, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on 5 May 2022.

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 HK32 cents per share in cash for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company on 23 May 2022 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 18 May 2022 to 23 May 2022, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on 17 May 2022.

BUSINESS REVIEW

For the year ended 31 December 2021, the Group recorded total revenue of HK\$5,186 million, an increase of 67.3% year-on-year. Profit for the year was HK\$1,288 million, an increase of 28.3% year-on-year.

The Group’s gross profit margin rose by 8.6 percentage points year-on-year to 45.1%; the net profit margin also climbed by 8.6 percentage points year-on-year to 24.8%.

During the year under review, the Group's **Chemical operations** benefited from the rapid industrial recovery in the PRC in the second half of 2021. The fluctuation in the prices of raw materials did not significantly affect the Group's profitability, and on the contrary, stimulated the market prices of chemical products, resulting in a significant improvement in the Group's gross profit margin. For **Property operations**, the residential portion of its commercial and residential complex RIVERDALE in Changshu, Jiangsu, delivered 155 units, and revenue from sale of properties was approximately HK\$195 million during the year.

PROSPECTS

Although the COVID-19 pandemic situation remains volatile, the supply chain imbalance is gradually easing as many countries around the world relax or even lift their pandemic prevention measures. Demand in the downstream industries is expected to increase, supporting stable demand for various basic chemical products, and the Group therefore remains cautiously optimistic about its operating prospects in 2022. The Group will maintain the strategy of selling property units at opportune times heeding market conditions, and actively complete the internal works of its commercial spaces.

The Group has been stepping up its efforts to expand the product range of specialty polymers to meet the unique needs of its customers. In the fourth quarter of 2021, the Group launched the second phase of fluoropolymer production, which will significantly increase the production capacity of highly effective specialty polymers such as polytetrafluoroethylene (PTFE), enabling the Group to meet the strong demand for fluoropolymer products from downstream industries. In December 2021, the Group's chlorinated polyvinyl chloride (CPVC) resin obtained the "Green Design Product" certification from the Ministry of Industry and Information Technology. Together with the existing UL and NSF certifications, the Group can continue to expand the application industries and scope of its CPVC products in China and overseas.

As countries around the world begin plans to phase out fossil-fuel vehicles, the supply chain of the automobile industry will undergo a major shift. The Group's Zhuhai plant has been gradually put into operation since mid-2021, and its lithium-ion battery electrolyte additives have received a positive response from downstream enterprises. The R&D team will work closely with downstream customers to actively increase production capacity according to customer needs. In the future, the Group will actively prepare to strengthen its investment in high-end fluoropolymer and new lithium battery materials, so as to increase industry recognition and market share, and continue to expand the Group's presence in the lithium battery-related product market.

The Group is also committed to promoting green production and practicing clean, highly efficient and low-carbon development and management, with the long-term goal of obtaining "Grade-A Safe Production Standardization Enterprise Certification" and bringing continuous and satisfactory returns to 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 2021 was HK\$5,186 million and HK\$1,288 million respectively, representing an increase of 67.3% and an increase of 156.2%, as compared to HK\$3,100 million and HK\$503 million respectively for the last year.

The basic earnings per share was HK156.1 cents for the year ended 31 December 2021 (2020: HK60.9 cents).

Revenue

During the year under review, the Group recorded an increase of approximately HK\$2,086 million in revenue compared to the last year. During the year under review, gross profit margin of the Group increased by 8.6 percentage points, from 36.5% of the last year to 45.1% of the current year, and net profit margin increased by 8.6 percentage points, from 16.2% of the last year to 24.8% of the current year.

Chemical operations

During the year under review, the Group recorded a revenue from Chemical operations of approximately HK\$4,991 million, representing an increase of HK\$1,892 million or 61.0% as compared to last year. The increase in revenue was mainly attributable to the increase in unit selling price across most of our main products driven by their keen demand during the year under review.

As compared to the last year, the average selling price per ton of caustic soda was approximately RMB820, increased by 30%; the average selling price per ton of methylene chloride and chloroform was approximately RMB4,500 and RMB4,000, increased by 67% and 90% respectively; the average selling price per ton of polytetrafluoroethylene was approximately RMB56,000, increased by 28%.

The actual production volume of our primary products for the year (including self-consumption) was approximately 360,000 tons for CMS products, 570,000 tons for 100% dry basis caustic soda, 12,000 tons for polytetrafluoroethylene and 390,000 tons for hydrogen peroxide.

In 2021, the Group is benefited from the rapid recovery of the industrial market in China, particularly in the second half of the year, which maintain an upward trend on prices of major chemical products. The vigorous price fluctuations of raw materials such as coal and methanol undoubtedly pose challenges to the Group in controlling the timing of purchases and its resilience in inventory management. Our factory in Zhuhai also commenced its operations in mid-2021, gradually bringing revenue from lithium battery-related products to the Group. The Group will maintain a stable full-load production of the existing product lineups and focus on improving the production process and capacity of lithium battery-related products. This enables the Group in maintaining strong profit margins and competing for market share in market of lithium battery-related products at the same time.

Property operations

During the year under review, the Group recorded a revenue from Property operations of approximately HK\$195 million, arising from the sale and delivery a total of 155 residential units of RIVERDALE, being 52% of the total sellable units. The unsold residential units of RIVERDALE was 141 at the year end.

Selling and distribution costs

During the year under review, selling and distribution costs amounted to approximately HK\$233 million, increased by approximately HK\$32 million as compared to HK\$201 million of the last year. The increase in expenses for the year was mainly attributable to the expenses for exhibitions and promotions as well as commissions payable of the Property operations. The selling and distribution costs represented approximately 4.5% of total revenue for the year, as compared to 6.5% for the last year.

Administrative expenses

During the year under review, administrative expenses amounted to approximately HK\$299 million, increased by approximately HK\$76 million as compared to HK\$223 million of the last year. The increase in administrative expenses during the year under review was mainly due to the salary increments to general staff, the non-recurring impact from pandemic-related concessions and waivers last year and the resulting depreciation charges from additions of office equipment. The administrative expenses represented approximately 5.8% of total revenue for the year, as compared to 7.2% for the last year.

Research and development cost

During the year under review, research and development costs amounted to approximately HK\$231 million and representing 4.5% of total revenue for the year. During the year under review, continuous spending are made to research and development of new products and optimization of technical processes, maintaining a strong team of senior scientists and chemical professionals, procurement of equipment and testing materials, so as to maintain the sustainable development of the Group.

Finance costs

During the year under review, the net interest expenses incurred was approximately HK\$48 million, decreased by approximately HK\$8 million as compared to HK\$56 million of the last year. The decrease in expenses was mainly due to the overall market interest rates remains at an extremely low level.

Net exchange gain

During the year under review, the net exchange gain was approximately HK\$23 million. The net exchange gain of the Group is mainly driven by the appreciation of Renminbi in 2021.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2021 was 88 days, decreased by 4 days as compared to 92 days of the last year.

The Group's debtors' turnover days was controlled at 21 days for the year ended 31 December 2021 as compared to 30 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 30 days for the year ended 31 December 2021 as compared to 43 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 2021 was HK\$5,575 million (2020: HK\$4,444 million). As at 31 December 2021, the Group had current assets of HK\$2,146 million (2020: HK\$1,780 million) and current liabilities of HK\$1,339 million (2020: HK\$1,174 million). The current ratio was 1.60 as at 31 December 2021 as compared to 1.52 at 31 December 2020.

The financial resources of the Group remain strong. As at 31 December 2021, the Group's bank balances and cash (including bank balances with restricted use) was HK\$325 million (2020: HK\$423 million) and the net debt amounted to HK\$708 million (2020: HK\$1,109 million). The net debt to equity ratio of the Group as at 31 December 2021 was 12.70% (2020: 24.97%).

During the year under review, the Group made use of the increase in cash generated from operating activities and actively lowered bank borrowings. The Group would continue to maintain sufficient cash and available banking facilities to meet its capital commitments, working capital requirements and future investments for expansion.

CAPITAL AND OTHER COMMITMENTS

As at 31 December 2021, 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\$149 million.

HUMAN RESOURCES

At 31 December 2021, the Group had a workforce of around 2,100 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 2021, 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 2021.

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 2021 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 2021 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 12 May 2022. 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
Lee & Man Chemical Company Limited
Wai Siu Kee
Chairman

Hong Kong, 7 March 2022

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.