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 2016

FINANCIAL HIGHLIGHTS

- Revenue of HK$1,814 million for the year, increased by 6.3% as compared to last year.
- Net profit of HK$216 million for the year, decreased by 19.8% as compared to last year.
- Gross profit margin for the year was 36.3%, net profit margin was 11.9%.
- Earnings per share for the year was HK26.2 cents , with proposed final dividend of HK4 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 2016 together with comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Revenue	*4&5*	**1,813,851**	1,705,879
Cost of sales		**(1,155,893)**	(1,030,707)
Gross profit		**657,958**	675,172
Other income	*6*	**87,042**	84,765
Other gains and losses	*7*	**8,102**	(1,090)
Selling and distribution costs		**(127,268)**	(97,520)
General and administrative expenses		**(132,717)**	(116,002)
Research and development cost		**(45,169)**	(76,626)
Finance costs	*9*	**(24,803)**	(17,984)
Net exchange loss		**(82,650)**	(92,356)
Share of loss of joint ventures		**(545)**	(2,415)
Profit before taxation		**339,950**	355,944
Income tax expense	*8*	**(123,755)**	(86,266)
Profit for the year	*9*	**216,195**	269,678
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation		**(136,212)**	(95,675)
Other comprehensive expense from share of joint ventures		**(1,920)**	(2,570)
Net gain on hedging instruments in cash flow hedges		**184**	632
Other comprehensive expense for the year		**(137,948)**	(97,613)
Total comprehensive income for the year		**78,247**	172,065
Earnings per share	*10*		
Basic (HK cents)		**26.2**	32.7
Diluted (HK cents)		**N/A**	32.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,319,668**	3,295,041
Prepaid lease payments		**112,496**	122,609
Investment property		**61,798**	46,901
Intangible assets		**2,254**	3,570
Deposits paid for the acquisition of property, plant and equipment		**115,836**	48,964
Interests in joint ventures		**16,693**	19,158
Loan to a joint venture		**95,365**	-
Other deposits		**93,245**	99,387
Deferred tax asset		**23,317**	23,780
		3,840,672	3,659,410
CURRENT ASSETS			
Inventories	*12*	**231,846**	206,715
Prepaid lease payments		**3,022**	3,222
Trade and other receivables	*13*	**425,880**	379,206
Tax recoverable		**7,951**	11,976
Loan to a joint venture		**-**	93,652
Amount due from a joint venture		**14,603**	15,138
Bank balances and cash		**228,091**	252,721
		911,393	962,630
CURRENT LIABILITIES			
Trade and other payables	*14*	**355,400**	301,886
Amounts due to related companies		**2,602**	3,793
Taxation payable		**48,681**	42,517
Derivative financial instruments		**20**	42
Bank borrowings - due within 1 year		**444,759**	611,444
		851,462	959,682
NET CURRENT ASSETS		**59,931**	2,948
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,900,603**	3,662,358

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AT 31 DECEMBER 2016

		2016	2015
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Other payables	*14*	**26,299**	65,506
Deferred tax liabilities		**8,008**	-
Bank borrowings - due after 1 year		**1,524,271**	1,250,390
Derivative financial instruments		**-**	184
		1,558,578	1,316,080
NET ASSETS		**2,342,025**	2,346,278
CAPITAL AND RESERVES			
Share capital		**82,500**	82,500
Reserves		**2,259,525**	2,263,778
		2,342,025	2,346,278

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Share premium	Non-distributable reserve	Safety fund reserve	Translation reserve	Hedging reserve	Share options reserve	Special reserve	Accumulated profits	Total
	HK$'000	HK$'000	HK$'000 *(note i)*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 *(note ii)*	HK$'000	HK$'000
At 1 January 2015	82,500	20,307	251,619	17,588	130,701	(816)	163,430	(97,362)	1,729,996	2,297,963
Exchange differences arising from translation	-	-	-	-	(95,675)	-	-	-	-	(95,675)
Other comprehensive expense from share of joint ventures	-	-	-	-	(2,570)	-	-	-	-	(2,570)
Net adjustment on cash flow hedges	-	-	-	-	-	632	-	-	-	632
Other comprehensive (expense) income for the year	-	-	-	-	(98,245)	632	-	-	-	(97,613)
Profit for the year	-	-	-	-	-	-	-	-	269,678	269,678
Total comprehensive (expense) income for the year	-	-	-	-	(98,245)	632	-	-	269,678	172,065
Lapse of share options	-	-	-	-	-	-	(163,430)	-	163,430	-
Cash dividends recognized as distribution	-	-	-	-	-	-	-	-	(123,750)	(123,750)
Transfer to non-distributable reserve	-	-	37,856	-	-	-	-	-	(37,856)	-
Transfer to safety fund reserve	-	-	-	2,760	-	-	-	-	(2,760)	-
At 31 December 2015	**82,500**	**20,307**	**289,475**	**20,348**	**32,456**	**(184)**	**-**	**(97,362)**	**1,998,738**	**2,346,278**
Exchange differences arising from translation	-	-	-	-	(136,212)	-	-	-	-	(136,212)
Other comprehensive expense from share of joint ventures	-	-	-	-	(1,920)	-	-	-	-	(1,920)
Net adjustment on cash flow hedges	-	-	-	-	-	184	-	-	-	184
Other comprehensive (expense) income for the year	-	-	-	-	(138,132)	184	-	-	-	(137,948)
Profit for the year	-	-	-	-	-	-	-	-	216,195	216,195
Total comprehensive (expense) income for the year	-	-	-	-	(138,132)	184	-	-	216,195	78,247
Cash dividends recognized as distribution	-	-	-	-	-	-	-	-	(82,500)	(82,500)
Transfer to non-distributable reserve	-	-	43,971	-	-	-	-	-	(43,971)	-
Transfer from safety fund reserve	-	-	-	(5,921)	-	-	-	-	5,921	-
Release of exchange reserve upon deregistration of a subsidiary	-	-	-	-	223	-	-	-	(223)	-
At 31 December 2016	**82,500**	**20,307**	**333,446**	**14,427**	**(105,453)**	**-**	**-**	**(97,362)**	**2,094,160**	**2,342,025**

notes:

i. According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.

ii. The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in December 2001.

Notes:

1. 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"). Its ultimate holding company and immediate parent is Fortune Star Tradings Limited, a company which is incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Lee Wan Keung. 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.

The Company acts as an investment holding company and the principal activities of its principal subsidiaries are set out in note 39 of the annual report.

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

Amendments to HKFRSs that are mandatorily effective for 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 in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

Except as described below, the application of the amendments to HKFRSs 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.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 *Disclosure Initiative* for the first time in the current year. The amendments to HKAS 1 clarify that an entity needs not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. **APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** *(CONTINUED)*

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the directors do not anticipate that the application of HKFRS 9 in the future will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

· Step 1: Identify the contract(s) with a customer
· Step 2: Identify the performance obligations in the contract
· Step 3: Determine the transaction price
· Step 4: Allocate the transaction price to the performance obligations in the contract
· Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the 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.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and financing/operating cash flows respectively.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, 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 2016, the Group has non-cancellable operating lease commitments of approximately HK$5,004,000 as disclosed in note 33 of the annual report. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence 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 upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments may result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

The directors anticipate that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

3. CHANGES IN ACCOUNTING POLICIES

During the year, the Group changed its accounting policy relating to its investment property as follows. Prior to the change, the Group used to measure its investment property using the cost model. The management of the Group considers that measuring investment property at fair value model provides more relevant information about the Group's financial performance to the economic decision-making needs of users as most of the companies engaged in properties investment in the PRC adopt the same model in measuring investment properties.

After due and careful consideration, the directors of the Company considered that this change in accounting policy has no significant impact on how the Group's results and financial position for the prior year would have been prepared or presented. As a result, there is no restatements made by the directors on the Group's results and financial position for the prior year.

4. REVENUE

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

5. 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 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

All the Group's revenue from external customers is derived from the PRC for both years.

Information about the Group's non-current assets is presented based on the geographical location of assets.

	2016	2015
	HK$'000	*HK$'000*
The PRC other than Hong Kong	**3,833,574**	3,659,410
Hong Kong	**7,098**	-
	3,840,672	3,659,410

(c) Revenue from major products

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

	2016	2015
	HK$'000	*HK$'000*
Chloromethane products	**543,825**	644,856
Caustic soda	**887,132**	743,113
Hydrogen peroxide	**64,844**	142,317
Fluorochemical products	**262,249**	96,598
Others	**55,801**	78,995
	1,813,851	1,705,879

(d) Information about major customers

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

6. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Bank interest income	**2,112**	15,579
Government grants	**43,383**	39,790
Scrap sales	**4,203**	7,604
Others	**37,344**	21,792
	87,042	84,765

7. OTHER GAIN AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Gain from change in fair value of an investment property	**18,633**	-
Net loss from changes in fair value of derivative financial instruments	**(84)**	(670)
Loss on disposal of property, plant and equipment	**(1,226)**	(420)
Write-off property, plant and equipment	**(9,221)**	-
	8,102	(1,090)

8. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
The charge comprises :		
Current tax :		
PRC Enterprise Income Tax ("EIT")	**95,834**	62,034
Withholding tax on dividend income	**13,123**	24,550
Other jurisdiction	**34**	36
Overprovision in prior years:		
EIT	**7,362**	(878)
Deferred tax :		
Current year	**7,402**	524
	123,755	86,266

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 2015 and 31 December 2016, Jiangsu Lee & Man Chemical Limited was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New 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 years since there is no assessable profit for both years.

9. PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Profit for the year has been arrived at after charging :		
Directors' emoluments	**11,261**	9,483
Other staff costs:		
Salaries and other benefits (excluding directors)	**150,084**	127,442
Retirement benefit schemes contributions (excluding directors)	**10,642**	15,684
Total staff costs	**171,987**	152,609
Finance costs:		
Interest on bank borrowings wholly repayable within five years	**68,452**	57,900
Less: amounts capitalised to property, plant and equipment (note)	**(44,065)**	(41,763)
	24,387	16,137
Net adjustment on interest rate swaps designated as cash flow hedges of floating rate debt	**416**	1,847
	24,803	17,984
Auditors' remuneration:		
- Audit services	**1,456**	1,381
- Non-audit services	**175**	169
Cost of inventories recognised as expenses	**1,155,893**	1,030,707
Depreciation of property, plant and equipment	**221,086**	183,476
Amortisation of prepaid lease payments	**2,668**	2,294
Amortisation of intangible assets included in cost of sales	**1,156**	1,206
Total depreciation and amortisation	**224,910**	186,976
Capitalised in inventories	**(198,385)**	(158,754)
	26,525	28,222

note: certain borrowing costs capitalised during the year arose from the general borrowings and were calculated by applying a capitalisation rate of 3.28% (2015: 2.75%) per annum to expenditures on qualifying assets.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year of HK$216,195,000 (2015: HK$269,678,000) and 825,000,000 (2015: 825,000,000) shares in issue during the year.

The computation of diluted earnings per share for 2015 did not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares in that year.

No diluted earnings per share for 2016 were presented as there were no potential ordinary shares in issue for 2016.

11. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
Final dividend of HK5 cents per share for the year ended 31 December 2015	**41,250**	-
Interim dividend of HK5 cents per share for the year ended 31 December 2016	**41,250**	-
Final dividend of HK8 cents per share for the year ended 31 December 2014	**-**	66,000
Interim dividend of HK7 cents per share for the year ended 31 December 2015	**-**	57,750
	82,500	123,750

A final dividend of HK4 cents (2015: HK5 cents) per share amounting to HK$33,000,000 (2015: HK$41,250,000) in respect of the year ended 31 December 2016 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials and consumables	**152,680**	123,889
Work in progress	**18,271**	12,044
Finished goods	**60,895**	70,782
	231,846	206,715

13. 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 and bills receivables of HK$219,722,000 (2015: HK$132,322,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Not exceeding 30 days	**153,699**	102,176
31 – 60 days	**40,593**	17,469
61 – 90 days	**15,858**	5,219
91 – 120 days	**5,102**	3,292
Over 120 days	**4,470**	4,166
	219,722	132,322
Prepayments	**40,074**	41,887
Deposits to suppliers	**40,745**	6,412
Value-added tax receivables	**119,654**	193,779
Other receivables	**5,685**	4,806
Total trade and other receivables	**425,880**	379,206

14. 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 payable of HK$95,530,000 (2015: HK$80,707,000). The aged analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Not exceeding 30 days	**63,217**	56,757
31 – 60 days	**9,662**	9,016
61 – 90 days	**7,774**	3,188
Over 90 days	**14,877**	11,746
	95,530	80,707
Receipt in advance	**47,800**	41,122
Construction costs payable and accruals	**118,990**	153,135
Value-added tax accruals	**7,271**	17,126
Other payables	**93,536**	57,960
Other accruals	**18,572**	17,342
Total trade and other payables	**381,699**	367,392

The balance of construction costs payable and accruals comprises non-current construction costs payables of HK$26,299,000 (2015: HK$65,506,000). Other accruals are classified as current liabilities.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK4 cents per share for the year ended 31 December 2016 to shareholders whose names appear on the Register of Members on 18 May 2017. 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 25 May 2017.

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 10 May 2017. For ascertaining shareholders' right to attend and vote at the AGM, the register of members of the Company will be closed from 8 May 2017 to 10 May 2017, 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 4:00 p.m. on 5 May 2017.

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 HK4 cents per share in cash for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on 18 May 2017 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 16 May 2017 to 18 May 2017, 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 4:00 p.m. on 15 May 2017.

BUSINESS REVIEW

For the year ended 31 December 2016, the Group recorded a revenue of HK$1,814 million, increased by 6.3% as compared to last year; and a net profit of HK$216 million for the year, representing a decrease of 19.8% as compared to last year. The decrease in net profit for the year was mainly due to the decrease in product prices.

The Group recorded a gross profit margin of 36.3% for the year ended 31 December 2016, representing a decrease of 3.3 basis points as compared to last year; while the net profit margin was recorded 11.9%, representing a decrease of 3.9 basis points as compared to last year.

PROSPECTS

The Group has completed the construction of the Jiangxi plant. The first and second phase production lines have been officially put into production and have contributed profit to the Group since the end of 2015. The management believes that the tough investment period has passed and with the increase in some chemical product prices, chemical business is expected to be positive for next year .

The management expects that trial production for new products will begin gradually in the second quarter of 2017, including chlorinated polyvinyl chloride, thionyl chloride and styrene-acrylic latex surface sizing agent , and wishes to put them into official production soonest with profitable contribution to the group as well.

In addition, the Group has committed to new product research and development, devoted more resources in employing scientific research experts who possess rich chemical experience and in acquiring more scientific research equipment, so as to expand and enhance the internal research and development team. The management expects that the Group can be able to develop new products successfully in the near future that can meet the trend of refined chemical development.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 31 December 2016 was HK$2,342 million (31.12.2015 : HK$2,346 million). As at 31 December 2016, the Group had current assets of HK$911 million (31.12.2015: HK$963 million) and current liabilities of HK$851 million (31.12.2015: HK$960 million). The current ratio was 1.07 as at 31 December 2016 as compared to 1.0 at 31 December 2015.

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 2016, the Group had outstanding bank borrowings of HK$1,969 million (31.12.2015: HK$1,862 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 31 December 2016, the Group maintained bank balances and cash of HK$228 million (31.12.2015: HK$253 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) as at 31 December 2016 was 74.33% (31.12.2015: 68.58%).

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 2016, 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, intangible assets and land use rights in amount of approximately HK$290 million.

HUMAN RESOURCES

At 31 December 2016, the Group had a workforce of around 1,700 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 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the result of the Group for the year ended 31 December 2016 and has discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 10 May 2017. 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, 28 February 2017

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.