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LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.leeman.com.hk>

(Stock Code: 746)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue increased by 24.5% to HK\$733 million.
- Net profit increased by 0.9% to HK\$151 million.
- Gross profit margin increased from 28.9% to 35.0%.
- Net profit margin decreased from 25.5% to 20.7%.
- Basic earnings per share increased from HK18.2 cents to HK18.4 cents.
- Declared interim dividend of HK7.0 cents per share.

INTERIM RESULTS

The board of directors (the “Board”) of Lee & Man Chemical Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with comparative figures for the last corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
	<i>Notes</i>	<u>2014</u>	<u>2013</u>
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3	733,073	588,809
Cost of sales		<u>(476,364)</u>	<u>(418,614)</u>
Gross profit		256,709	170,195
Other income	4	58,513	117,054
Selling and distribution costs		(32,244)	(26,798)
General and administrative expenses		(75,934)	(61,676)
Finance costs	5	(19,310)	(22,749)
Share of loss of joint ventures		<u>(1,634)</u>	<u>-</u>
Profit before taxation		186,100	176,026
Income tax expense	6	<u>(34,627)</u>	<u>(25,871)</u>
Profit for the period	7	<u>151,473</u>	<u>150,155</u>
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss :			
Exchange differences arising from translation		(22,494)	28,890
Net gain on hedging instruments in cash flow hedges		<u>712</u>	<u>3,937</u>
Other comprehensive (expense) income for the period		<u>(21,782)</u>	<u>32,827</u>
Total comprehensive income for the period		<u>129,691</u>	<u>182,982</u>
Earnings per share :			
- Basic and diluted (HK cents)	9	<u>18.4</u>	<u>18.2</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014**

	<i>Notes</i>	30.06.2014 (Unaudited) HK\$'000	31.12.2013 (Audited) HK'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	2,551,553	2,251,570
Prepaid lease payments		80,739	82,109
Investment property		49,572	48,470
Intangible assets		5,625	6,282
Deposits paid for the acquisition of property, plant and equipment		210,071	178,326
Interests in joint ventures		25,531	27,338
Other deposit		2,025	2,038
Derivative financial instruments		-	360
Deferred tax asset		25,937	26,372
		2,951,053	2,622,865
CURRENT ASSETS			
Inventories	<i>11</i>	102,722	116,578
Prepaid lease payments		1,901	1,913
Trade and other receivables	<i>12</i>	412,625	270,470
Loan to a joint venture		87,228	83,353
Amount due from a joint venture		15,826	15,927
Derivative financial instruments		3,653	2,024
Bank balances and cash		862,396	1,061,504
		1,486,351	1,551,769
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	352,457	327,799
Amounts due to a related company		3,513	2,938
Taxation payable		26,624	38,289
Derivative financial instruments		878	502
Bank borrowings - due within 1 year		712,381	581,414
		1,095,853	950,942
NET CURRENT ASSETS		390,498	600,827
TOTAL ASSETS LESS CURRENT LIABILITIES		3,341,551	3,223,692
NON-CURRENT LIABILITIES			
Bank borrowings - due after 1 year		1,137,641	1,090,273
Derivative financial instruments		1,361	2,811
		1,139,002	1,093,084
NET ASSETS		2,202,549	2,130,608
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		2,120,049	2,048,108
		2,202,549	2,130,608

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	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 2013 (audited)	82,500	20,307	166,640	16,644	139,849	(7,466)	157,430	(97,362)	1,415,297	1,893,839
Profit for the period	-	-	-	-	-	-	-	-	150,155	150,155
Other comprehensive income for the period	-	-	-	-	28,890	3,937	-	-	-	32,827
Total comprehensive income for the period	-	-	-	-	28,890	3,937	-	-	150,155	182,982
Recognition of equity-settled share-based payments	-	-	-	-	-	-	3,000	-	-	3,000
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(66,000)	(66,000)
Transfer to non-distributable reserve	-	-	12,063	-	-	-	-	-	(12,063)	-
Utilisation of safety fund reserve	-	-	-	(334)	-	-	-	-	-	(334)
At 30 June 2013 (unaudited)	82,500	20,307	178,703	16,310	168,739	(3,529)	160,430	(97,362)	1,487,389	2,013,487
At 1 January 2014 (audited)	82,500	20,307	204,341	15,811	181,122	(2,952)	163,430	(97,362)	1,563,411	2,130,608
Profit for the period	-	-	-	-	-	-	-	-	151,473	151,473
Other comprehensive (expense) income for the period	-	-	-	-	(22,494)	712	-	-	-	(21,782)
Total comprehensive (expense) income for the period	-	-	-	-	(22,494)	712	-	-	151,473	129,691
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(57,750)	(57,750)
Transfer to non-distributable reserve	-	-	20,441	-	-	-	-	-	(20,441)	-
At 30 June 2014 (unaudited)	82,500	20,307	224,782	15,811	158,628	(2,240)	163,430	(97,362)	1,636,693	2,202,549

notes:

- i. According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.
- ii. The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in December 2001.

Notes:

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and Interpretations issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs and Interpretations in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

(a) Operating segments

Information reported to the Chairman of the Company, being the CODM, for the purposes of resources allocation and assessment of segment performance focuses on types of goods sold.

The CODM regards the Chemical Business as the Group’s sole operating reportable segment and reviews the Group’s results and financial position as a whole for the purpose of performance measurement and resources allocation. Accordingly, no segment analysis is presented other than entity wide disclosure.

(b) Geographical information

The Group’s operations are located in the PRC.

The Group’s revenue from external customers by geographical location is detailed below:

	<u>Revenue from external customers</u>	
	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>
PRC	<u>733,073</u>	<u>588,809</u>

(c) Revenue from major products

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

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chloromethane products	342,974	224,964
Caustic soda	272,245	278,817
Hydrogen peroxide	62,585	62,994
Others	55,269	22,034
	<u>733,073</u>	<u>588,809</u>

(d) Information about major customers

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

4. OTHER INCOME

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	21,084	32,707
Government grant	20,477	25,653
Exchange gain	-	38,778
Net gain from fair value changes on derivative financial instruments	7,033	8,495
Others	9,919	11,421
	<u>58,513</u>	<u>117,054</u>

5. FINANCE COSTS

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	16,761	20,311
Net adjustment on interest rate swaps designated as cash flow hedges of floating rate debt	2,549	2,438
	<u>19,310</u>	<u>22,749</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises :		
Current tax :		
PRC Enterprise Income Tax ("EIT")	34,358	38,504
Deferred tax:		
Current period	269	(12,633)
	<u>34,627</u>	<u>25,871</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%.

Pursuant to the relevant laws and regulations in the PRC, Jiangsu Lee & Man Chemical Limited (“Jiangsu Lee & Man”) is exempted from PRC EIT for two years starting from 2008, followed by a 50% reduction for the next three years. These tax holidays and concessions expired in 2012. For the calendar year of 2014, Jiangsu Lee & Man was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New-Tech Enterprise.

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

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Directors' emoluments	4,435	4,509
Share based performance related incentive	-	3,000
Other staff costs	45,011	36,998
Retirement benefit schemes contributions (excluding directors)	3,458	1,962
Total staff costs	<u>52,904</u>	<u>46,469</u>
Amortisation of prepaid lease payments	855	867
Amortisation of intangible assets	620	609
Cost of inventories recognised as expenses	476,364	418,614
Depreciation of property, plant and equipment	76,233	57,288
Research and development costs (included in general and administrative expenses)	<u>26,485</u>	<u>16,268</u>

8. DIVIDENDS

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid during the period:		
2013 final dividend HK7.0 cents per share (2012: HK8.0 cents)	<u>57,750</u>	<u>66,000</u>
Interim dividend declared subsequent to period end:		
2014 interim dividend HK7.0 cents per share (2013: HK7.0 cents)	<u>57,750</u>	<u>57,750</u>

The Board has declared that an interim dividend of HK7.0 cents (2013: HK7.0 cents) per share for the six months ended 30 June 2014 to shareholders whose names appear in the Register of Members on 19 August 2014.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share from attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	<u>2014</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share	<u>151,473</u>	<u>150,155</u>
	<i>Number of</i>	<i>Number of</i>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>825,000,000</u>	<u>825,000,000</u>

The presentation of diluted earnings per share for both periods did not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares in both periods.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$393 million (2013: HK\$323 million) on property, plant and equipment to expand its operation.

11. INVENTORIES

	At	At
	<u>30.06.2014</u>	<u>31.12.2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	77,381	91,808
Work in progress	5,370	8,790
Finished goods	19,971	15,980
	<u>102,722</u>	<u>116,578</u>

12. TRADE AND OTHER RECEIVABLES

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

Included in the balance are trade and bills receivables of approximately HK\$112,844,000 (31.12.2013: HK\$105,723,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	At <u>30.06.2014</u> <i>HK\$'000</i>	At <u>31.12.2013</u> <i>HK\$'000</i>
Not exceeding 30 days	95,218	98,161
31 to 60 days	14,209	5,202
61 to 90 days	1,278	1,723
91 to 120 days	2,139	637
	<hr/> 112,844	<hr/> 105,723
Prepayment, deposits and other receivables	163,160	61,293
Value-added tax receivables	136,621	103,454
	<hr/> 412,625	<hr/> 270,470
	<hr/> <hr/>	<hr/> <hr/>

13. TRADE AND OTHER PAYABLES

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

Included in trade and other payables are trade and bills payables of approximately HK\$65,460,000 (31.12.2013: HK\$73,862,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	At <u>30.06.2014</u> <i>HK\$'000</i>	At <u>31.12.2013</u> <i>HK\$'000</i>
Not exceeding 30 days	43,104	51,522
31 to 60 days	7,749	9,050
61 to 90 days	2,889	2,219
Over 90 days	11,718	11,071
	<hr/> 65,460	<hr/> 73,862
Receipt in advance	34,625	19,887
Construction payable	183,235	169,296
Other payables and accruals	69,137	64,754
	<hr/> 352,457	<hr/> 327,799
	<hr/> <hr/>	<hr/> <hr/>

INTERIM DIVIDEND

The Board has declared an interim dividend of HK7.0 cents per share for the six months ended 30 June 2014 to shareholders whose names appear on the Register of Members on 19 August 2014. It is expected that the interim dividend will be paid around 27 August 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 August 2014 to 19 August 2014, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on 14 August 2014.

BUSINESS REVIEW

For the six months ended 30 June 2014, the Group recorded a revenue of approximately HK\$733 million, increased by 24.5% compared to the last corresponding period; and a net profit for the period of approximately HK\$151 million, representing a rise of 0.9% above the same period last year.

As the growth of the economy in the PRC became stable, the selling prices of the Group's products had rebounded from the bottom in the first half. The main products selling price rose significantly during the period. As compared to the last corresponding period, the average selling price per ton of methylene chloride and chloroform, increased by approximately 38.2% and 58.1% respectively while the selling price per ton of the by-product of caustic soda remained stable. In addition, the average purchase costs of raw materials, mainly including industrial crude salt and methanol, was generally stable.

As affected by the above factors, gross profit margin of the Group for the six month ended 30 June 2014 increased substantially from 28.9% of the last corresponding period to 35.0%; while the net profit recorded a slight growth, due to the exchange loss arising from the depreciation of RMB, which partially offset the growth of the gross profit.

PROSPECTS

For the year, the key business focus of the Group is to complete the construction of a new plant in Jiangxi for the development of the fluorochemical products. As at 30 June 2014, approximately RMB1.6 billion of capital expenditure was incurred by the Group. The plant is expected to operate in full-scale and generate profit to the Group in the second half.

The project is financed by internal funds and bank borrowings. As at 30 June 2014, the Group maintained bank balances and cash of approximately HK\$862 million. The Group has sufficient cash and available banking facilities to meet its future capital expenditure and working capital requirements.

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 make great strides in the business development of the Group and deliver fruitful rewards to the shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' equity of the Group as at 30 June 2014 was approximately HK\$2,203 million (31.12.2013: HK\$2,131 million). As at 30 June 2014, the Group had current assets of approximately HK\$1,486 million (31.12.2013: HK\$1,552 million) and current liabilities of approximately HK\$1,096 million (31.12.2013: HK\$951 million). The current ratio decreased from 1.6 as at 31 December 2013 to 1.4 as at 30 June 2014.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2014, the Group had outstanding bank borrowings of approximately HK\$1,850 million (31.12.2013: HK\$1,672 million). These bank loans were secured by corporate guarantees provided by the Company and its subsidiaries. As at 30 June 2014, the Group maintained bank balances and cash of approximately HK\$862 million (31.12.2013: HK\$1,062 million). The Group's net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) was 45% as at 30 June 2014 (31.12.2013: 28%).

The Group's liquidity position remains strong and the Group has sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion.

CAPITAL COMMITMENTS

As at 30 June 2014, 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 acquisition of land use rights in amount of approximately HK\$416 million.

EMPLOYEES

As at 30 June 2014, the Group had a workforce of around 1,400 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Group. The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Corporate Governance Code and Corporate Governance Report (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014 except where stated and explained below.

The Group has an Executive Chairman. No individual has been appointed as a chief executive officer. The Executive Chairman with the assistance of the Group’s senior management team oversees and manages the Group’s business. Other functions normally undertaken by a chief executive officer of a company are delegated to members of the Group’s senior management team. This structure deviates from the code provision of Code that requires the roles of the chairman and the chief executive officer to be separate and not performed by the same individual. The Directors has considered this matter carefully and decided not to adopt the provision. The Directors believe that the current management structure has been effective in facilitating the operation and development of the Group and its business for a considerable period of time and that the necessary checks and balances consistent with sound corporate governance practices are in place. Accordingly, the Directors do not envisage the Group should change its current management structure. However, the Directors will review the management structure from time to time to ensure it continues to meet these objectives.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Group’s unaudited interim results for the six months ended 30 June 2014.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 31 July 2014

As at the date of this announcement, the Board comprises four executive directors, namely, Ms Wai Siu Kee, Mr Lee Man Yan, Mr Yang Zuo Ning and Ms Wong Yuet Ming, and three independent non-executive directors, namely, Mr Wong Kai Tung, Tony, Mr Wan Chi Keung, Aaron BBS JP and Mr Heng Victor Ja Wei.