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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 2020

FINANCIAL HIGHLIGHTS

- Revenue of HK\$3,100 million for the year, decreased by 10.8% as compared to last year.
- Net profit of HK\$503 million for the year, decreased by 28.3% as compared to last year.
- Gross profit margin for the year was 36.5%, net profit margin was 16.2%.
- Basic earnings per share for the year was HK60.9 cents, with proposed final dividend of HK16.5 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 2020 together with comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 3&4 | 3,099,685 | 3,476,571 |
| Cost of sales | | <u>(1,968,153)</u> | <u>(2,090,457)</u> |
| Gross profit | | 1,131,532 | 1,386,114 |
| Other income | 5 | 96,983 | 119,402 |
| Other gains and losses | 6 | 237 | (408) |
| Selling and distribution costs | | (201,218) | (214,988) |
| General and administrative expenses | | (223,316) | (213,088) |
| Research and development cost | | (153,789) | (138,538) |
| Finance costs | | (55,851) | (77,755) |
| Net exchange gain (loss) | | 42,218 | (9,938) |
| Share of (loss) profit of joint ventures | | (8,505) | 172 |
| Share of loss of associates | | <u>(189)</u> | <u>(58)</u> |
| Profit before taxation | | 628,102 | 850,915 |
| Income tax expense | 7 | <u>(125,474)</u> | <u>(150,144)</u> |
| Profit for the year | 8 | <u>502,628</u> | <u>700,771</u> |
| Other comprehensive income (expense) | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation | | 240,836 | (88,567) |
| Share of other comprehensive income (expense) of joint ventures and associates | | <u>2,427</u> | <u>(838)</u> |
| Other comprehensive income (expense) for the year | | <u>243,263</u> | <u>(89,405)</u> |
| Total comprehensive income for the year | | <u>745,891</u> | <u>611,366</u> |
| Earnings per share, basic and diluted <i>(HK cents)</i> | 9 | <u>60.9</u> | <u>84.9</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

| | <i>Notes</i> | 2020 HK\$'000 | 2019 HK\$'000 |
|---|--------------|--------------------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 4,537,826 | 4,083,068 |
| Right-of-use assets | | 153,547 | 142,998 |
| Intangible assets | | 98,661 | 95,405 |
| Deposits paid for the acquisition of property, plant and equipment | | 55,053 | 76,644 |
| Interests in joint ventures | | 105,602 | 16,462 |
| Interests in associates | | 21,849 | 19,619 |
| Loan to a joint venture | | – | 97,755 |
| Deferred tax assets | | 23,093 | 22,335 |
| Goodwill | | 2,793 | 2,622 |
| | | 4,998,424 | 4,556,908 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 504,455 | 550,384 |
| Properties under development for sale | | 390,804 | 263,163 |
| Trade and other receivables | 12 | 296,074 | 290,527 |
| Bills receivable | | 134,289 | 156,105 |
| Amount due from a joint venture | | 14,966 | 14,120 |
| Amount due from an associate | | 620 | 1,199 |
| Amounts due from related companies | | 16,492 | 16,138 |
| Bank balances with restricted use | | 36,038 | 30,253 |
| Bank balances and cash | | 386,645 | 216,151 |
| | | 1,780,383 | 1,538,040 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 398,727 | 366,898 |
| Bills payable | | 116,577 | 131,763 |
| Contract liabilities | | 135,171 | 55,157 |
| Amount due to a related company | | 13,227 | 15,307 |
| Taxation payable | | 49,423 | 85,677 |
| Lease liabilities | | 2,384 | 1,850 |
| Bank borrowings | | 458,663 | 587,538 |
| | | 1,174,172 | 1,244,190 |
| NET CURRENT ASSETS | | 606,211 | 293,850 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,604,635 | 4,850,758 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2020

| | <i>Notes</i> | 2020 HK\$'000 | 2019 <i>HK\$'000</i> |
|--------------------------------|--------------|--------------------------------|-------------------------|
| NON-CURRENT LIABILITIES | | | |
| Contract liabilities | | – | 9,877 |
| Other payables | 13 | 33,344 | 40,747 |
| Deferred tax liabilities | | 50,021 | 38,697 |
| Lease liabilities | | 4,213 | – |
| Bank borrowings | | 1,073,493 | 910,914 |
| | | <u>1,161,071</u> | <u>1,000,235</u> |
| NET ASSETS | | <u>4,443,564</u> | <u>3,850,523</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 82,500 | 82,500 |
| Reserves | | 4,361,064 | 3,768,023 |
| TOTAL EQUITY | | <u>4,443,564</u> | <u>3,850,523</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 dollars”) 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 *Amendments to References to the Conceptual Framework in HKFRS Standards* and 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 period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|--|--------------------------------|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the 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 | Insurance Contracts and the related Amendments ¹ |
| Amendment to HKFRS 16 | COVID-19-Related Rent Concessions ⁴ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 ⁵ |
| 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 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020 ² |

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 a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

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.

3. REVENUE

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

4. SEGMENT INFORMATION

(a) Operating Segments

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), being the Chairman of the Company, in order to allocate resources to segments and to assess their performance. The CODM reviews the Group's profit as a whole, which is generated solely from the manufacture and sale of chemical products and determined in accordance with the Group's accounting policies, for performance assessment. Therefore no separate segment information is prepared by the Group.

(b) Geographical information

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

(c) **Revenue**

Disaggregation of revenue

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Types of chemical products | | |
| Caustic soda | 1,075,848 | 1,395,256 |
| Chloromethane products | 716,931 | 993,162 |
| Polymers | 460,350 | 421,070 |
| Hydrogen peroxide | 394,436 | 264,796 |
| Fluorochemical products | 40,760 | 121,792 |
| Styrene acrylic latex surface sizing agent | 70,207 | 44,136 |
| Liquified chlorine | 111,477 | 25,240 |
| Others | 229,676 | 211,119 |
| | <hr/> | <hr/> |
| Total | 3,099,685 | 3,476,571 |
| | <hr/> <hr/> | <hr/> <hr/> |

For the years ended 31 December 2019 and 2020, no revenue is recognised from the sale of properties.

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

(d) **Information about major customers**

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

5. OTHER INCOME

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Bank interest income | 5,354 | 4,368 |
| Interest income from a joint venture | 627 | 522 |
| Government grants | 55,540 | 76,256 |
| Scrap sales | 11,846 | 7,776 |
| Electricity and steam income | 20,852 | 27,296 |
| Rental income | 2,169 | 2,260 |
| Others | 595 | 924 |
| | <hr/> | <hr/> |
| | 96,983 | 119,402 |
| | <hr/> <hr/> | <hr/> <hr/> |

6. OTHER GAINS AND LOSSES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net gain from changes in fair value of financial assets at fair value through profit or loss | 1,026 | 3,742 |
| Loss on disposal of property, plant and equipment | (789) | (3,998) |
| Loss on termination of lease arrangements | – | (152) |
| | <u>237</u> | <u>(408)</u> |

7. INCOME TAX EXPENSE

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The charge comprises: | | |
| Current tax | | |
| PRC Enterprise Income Tax (“EIT”) | 108,561 | 144,451 |
| PRC withholding tax on dividend income | 14,581 | 14,348 |
| Other jurisdictions | 588 | – |
| Overprovision in prior years – EIT | (7,718) | (9,044) |
| Deferred tax | | |
| Current year | 9,462 | 389 |
| | <u>125,474</u> | <u>150,144</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 2019 and 2020, 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 2021 and 2023 respectively, as they have been qualified as High and New Technology Enterprise, which is subject to renewal for every three years.

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 both years since there are no assessable profits.

8. PROFIT FOR THE YEAR

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' emoluments | 50,744 | 50,695 |
| Other staff costs (excluding directors): | | |
| Salaries and other benefits | 261,165 | 252,305 |
| Retirement benefit schemes contributions | 7,608 | 14,419 |
| | <hr/> | <hr/> |
| Total staff costs | 319,517 | 317,419 |
| Capitalised in inventories | (143,991) | (141,780) |
| | <hr/> | <hr/> |
| | 175,526 | 175,639 |
| | <hr/> | <hr/> |
| Finance costs: | | |
| Interest on bank borrowings | 58,371 | 77,533 |
| Lease liabilities | 71 | 222 |
| Less: amounts capitalised to property, plant and equipment (<i>note</i>) | (2,591) | – |
| | <hr/> | <hr/> |
| | 55,851 | 77,755 |
| | <hr/> | <hr/> |
| Auditors' remuneration | | |
| – Audit services | 1,800 | 1,850 |
| – Non-audit services | 355 | 225 |
| Cost of inventories recognised as expenses | 1,968,153 | 2,090,457 |
| | <hr/> | <hr/> |
| Depreciation of property, plant and equipment | 341,133 | 332,343 |
| Depreciation of right-of-use assets | 5,414 | 6,530 |
| Amortisation of intangible assets | 2,801 | 3,052 |
| | <hr/> | <hr/> |
| Total depreciation and amortisation | 349,348 | 341,925 |
| Capitalised in inventories | (298,173) | (295,173) |
| | <hr/> | <hr/> |
| | 51,175 | 46,752 |
| | <hr/> | <hr/> |

Note: During the year ended 31 December 2020, certain borrowing costs capitalised arose from specific borrowings and were calculated by applying a capitalisation rate of 4.99% per annum to expenditures on qualifying assets.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$502,628,000 (2019: HK\$700,771,000) and 825,000,000 (2019: 825,000,000) shares in issue during the year.

The computation of diluted earnings per share for 2019 and 2020 do 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 for both years.

10. DIVIDENDS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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 HK15 cents per share for the year ended 31 December 2018 | – | 123,750 |
| Interim dividend of HK18 cents per share for the year ended 31 December 2019 | – | 148,500 |
| | <u>185,625</u> | <u>272,250</u> |

A final dividend of HK16.5 cents (2019: HK15 cents) per share amounting to HK\$136,125,000 (2019: HK\$123,750,000) in respect of the year ended 31 December 2020 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Raw materials and consumables | 374,140 | 394,661 |
| Work in progress | 31,943 | 22,780 |
| Finished goods | 98,372 | 132,943 |
| | <u>504,455</u> | <u>550,384</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\$105,170,000 (2019: HK\$115,432,000), 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:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Not exceeding 30 days | 95,533 | 103,929 |
| 31–60 days | 9,342 | 8,376 |
| 61–90 days | 178 | 2,748 |
| 91–120 days | 60 | 81 |
| Over 120 days | 57 | 298 |
| Trade receivables | 105,170 | 115,432 |
| Prepayments | 103,366 | 102,014 |
| Deposits to suppliers | 50,359 | 18,983 |
| Value-added tax receivables | 34,081 | 36,950 |
| Other receivables | 3,098 | 17,148 |
| Total trade and other receivables | <u>296,074</u> | <u>290,527</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\$107,256,000 (2019: HK\$107,160,000). The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Not exceeding 30 days | 66,847 | 62,624 |
| 31–60 days | 13,823 | 16,807 |
| 61–90 days | 6,338 | 3,692 |
| Over 90 days | 20,248 | 24,037 |
| Trade payables | 107,256 | 107,160 |
| Construction costs payable and accruals | 164,345 | 137,338 |
| Value-added tax accruals | 14,538 | 16,136 |
| Other payables | 101,028 | 103,872 |
| Other accruals | 44,904 | 43,139 |
| Total trade and other payables | <u>432,071</u> | <u>407,645</u> |
| Analysed for reporting purposes as: | | |
| Non-current liabilities | 33,344 | 40,747 |
| Current liabilities | <u>398,727</u> | <u>366,898</u> |
| | <u>432,071</u> | <u>407,645</u> |

As at 31 December 2020, the balance of other payables included a non-current deferred income, amounting to HK\$23,877,000 (2019: HK\$29,080,000), received from the PRC government for an innovative technology project.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK16.5 cents per share for the year ended 31 December 2020 to shareholders whose names appear on the Register of Members on 11 May 2021. 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 26 May 2021.

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 30 April 2021. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 27 April 2021 to 30 April 2021, 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 26 April 2021.

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 HK16.5 cents per share in cash for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on 11 May 2021 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 6 May 2021 to 11 May 2021, 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 5 May 2021.

BUSINESS REVIEW

For the year ended 31 December 2020, the Group recorded total revenue of HK\$3,100 million, decreased by 10.8% when compared with the corresponding period last year. Net profit was HK\$503 million for the year, representing a year-on-year decrease of 28.3%. The Group’s gross profit margin was 36.5%, decreased by 3.4 percentage points when compared with the last corresponding period. Its net profit margin was 16.2%, decreased by 4.0 percentage points when year-on-year.

During the year under review, China's manufacturing industry was affected to various extents by the outbreak of COVID-19 in the first half of 2020. The pandemic in China became stable afterwards and various industries started to gain knowledge of the new normal, hence the manufacturing industry supply chain gradually stabilized. However, countries around the world continued to suffer from the impact of the prolonged pandemic, resulting in drastic slowdown and even contraction in overall economy. Demand for chemical products became stable in the second half of 2020, but their prices were just maintained at low levels in recent years, imposing pressure on the Group's profitability.

PROSPECTS

As the pandemic remains volatile, the business environment is still full of challenges. The political and economic conditions have also created uncertainties for future development. Although some countries have developed COVID-19 vaccines and restrictive measures are expected to relax, pointing to global economic recovery, the Group remains cautiously optimistic about its operation prospects in 2021. The Group will continue to consolidate its competitive edge over cost-effectiveness and improve its profitability. It will also actively enhance occupational safety measures and all-round training for its employees so as to ensure sustainable development under the condition of safe production.

China's telecommunication industry has been introducing 5G network services since 2019. The new normal under the pandemic has also stimulated the application of 5G in general communication services and in corporations. To maintain the speed and stability of 5G network transmission, service providers have strong demand for quality wires covered by highly effective specialty polymers, which are materials necessary for the building of 5G cell-site stations. The Group will continue expanding specialty polymer mix based on market development to meet its customers' unique demand.

Countries around the world have been tightening the road emission standard for vehicles, and this has created a continuous trend for the development of electric cars and large electric commercial vehicles. Hence, factors such as charging efficiency and range of car batteries are important considerations. The new factory in Gaolan Port, Zhuhai producing lithium battery electrolyte additives has commenced trial production in early 2021 and is expected to contribute revenue to the Group in 2021. The Group will continue diversifying lithium battery-related product lines and it will also actively capture opportunities in order to gain industry recognition, enlarge its market share and expand its revenue sources in the future.

The Group will strive to promote the concept of green manufacturing and achieve clean, efficient and low-carbon development management, aiming to realize the long-term goal of obtaining the "Grade-A Safe Production Standardization Enterprise Certification" and deliver sustainable and promising 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 2020 was HK\$3,100 million and HK\$503 million respectively, representing a decrease of 10.8% and a decrease of 28.3%, as compared to HK\$3,477 million and HK\$701 million respectively for the last year.

The basic earnings per share was HK60.9 cents for the year ended 31 December 2020 (2019: HK84.9 cents).

Revenue

During the year under review, the Group recorded a decrease of approximately HK\$377 million in revenue compared to the last year.

As compared to the last year, the average selling price per ton of caustic soda was approximately RMB630, decreased by 26%; the average selling price per ton of methylene chloride and chloroform was approximately RMB2,700 and RMB2,100, decreased by 17% and 26% respectively; the average selling price per ton of polytetrafluoroethylene was approximately RMB44,000, decreased by 10%.

The actual production volume of our primary products for the year (including self-consumption) was approximately 320,000 tons for CMS products, 570,000 tons for 100% dry basis caustic soda, 9,000 tons for polytetrafluoroethylene and 380,000 tons for hydrogen peroxide.

Despite the increase production volume of some of our primary products, due to the effect of COVID-19 pandemic, the selling prices of overall chemical products have slid to the low end after the production resumed in 2020. Selling prices for certain primary products had fallen from the first half of the year and stabilised by the third quarter in 2020. During the year under review, gross profit margin of the Group decreased by 3.4 percentage points, from 39.9% of the last year to 36.5% of the current year, and net profit margin decreased by 4.0 percentage points, from 20.2% of the last year to 16.2% of the current year. The Group will strive to improve profit contributions by maintaining its stable and full-load production and managing controllable productions costs through ongoing technical and process optimization.

Selling and distribution costs

During the year under review, selling and distribution costs amounted to approximately HK\$201 million, decreased by approximately HK\$14 million as compared to HK\$215 million of the last year. The decrease in expenses for the year was mainly a combined effect of the additional needs for deliveries driven by the ever increasing sales volume and the decrease in average transportation costs. The selling and distribution costs represented approximately 6.5% of total revenue for the year and was comparable to that of 6.2% of the last year.

Administrative expenses

During the year under review, administrative expenses amounted to approximately HK\$223 million, increased by approximately HK\$10 million as compared to HK\$213 million of the last year. The increase in expenses for the year mainly attributable to the additional overheads driven by the expansion of operation base in Guangdong and the increase in depreciation charges. The administrative expenses represented approximately 7.2% of total revenue for the year, as compared to 6.1% for the last year.

Research and development cost

During the year under review, research and development costs amounted to approximately HK\$154 million and representing 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 interest expenses incurred was approximately HK\$56 million, decreased by approximately HK\$22 million as compared to HK\$78 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\$42 million. The net exchange gain of the Group is mainly driven by the appreciation of Renminbi in 2020.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2020 was 98 days, comparable to 98 days of the last year.

The Group's debtors' turnover days was controlled at 30 days for the year ended 31 December 2020 as compared to 25 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 43 days for the year ended 31 December 2020 as compared to 38 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 2020 was HK\$4,444 million (31 December 2019: HK\$3,851 million). As at 31 December 2020, the Group had current assets of HK\$1,780 million (31 December 2019: HK\$1,538 million) and current liabilities of HK\$1,174 million (31 December 2019: HK\$1,244 million). The current ratio was 1.52 as at 31 December 2020 as compared to 1.24 at 31 December 2019.

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 2020, the Group had outstanding bank borrowings of HK\$1,532 million (31 December 2019: HK\$1,498 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 31 December 2020, the Group maintained aggregated bank balances and cash of HK\$423 million (31 December 2019: HK\$246 million). The Group's net debt-to-equity ratio (total borrowings net of bank balances and cash over shareholders' equity) as at 31 December 2020 was 24.97% (31 December 2019: 32.52%).

The Group's liquidity position remains strong and the Group possesses 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 2020, 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\$311 million.

HUMAN RESOURCES

At 31 December 2020, 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 2020, 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 2020.

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 2020 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 2020 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 30 April 2021. 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, 2 March 2021

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.