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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: <http://www.leemanchemical.com>

(Stock Code: 746)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue of HK\$3,477 million for the year, decreased by 10.3% as compared to last year.
- Net profit of HK\$701 million for the year, decreased by 19.7% as compared to last year.
- Gross profit margin for the year was 39.9%, net profit margin was 20.2%.
- Basic earnings per share for the year was HK84.9 cents, with proposed final dividend of HK15 cents per share.

FINANCIAL RESULTS

The board of directors (the “Directors”) of Lee & Man Chemical Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019 together with comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3&4	3,476,571	3,876,777
Cost of sales		(2,090,457)	(2,061,551)
Gross profit		1,386,114	1,815,226
Other income	5	119,402	75,921
Other gains and losses	6	(408)	9,974
Selling and distribution costs		(214,988)	(231,445)
General and administrative expenses		(213,088)	(225,873)
Research and development cost		(138,538)	(158,005)
Finance costs		(77,755)	(93,530)
Net exchange loss		(9,938)	(35,445)
Share of profit of a joint venture		172	14
Share of (loss) profit of associates		(58)	96
Profit before taxation		850,915	1,156,933
Income tax expense	7	(150,144)	(284,558)
Profit for the year	8	700,771	872,375
Other comprehensive expense			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation		(88,567)	(153,140)
Share of other comprehensive expense of a joint venture and associates		(838)	(792)
Other comprehensive expense for the year		(89,405)	(153,932)
Total comprehensive income for the year		611,366	718,443

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Profit (loss) for the year attributable to:			
Owners of the Company		700,771	872,641
Non-controlling interests		—	(266)
		<u>700,771</u>	<u>872,375</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		611,366	719,044
Non-controlling interests		—	(601)
		<u>611,366</u>	<u>718,443</u>
Earnings per share	9		
Basic (HK cents)		<u>84.9</u>	<u>105.8</u>
Diluted (HK cents)		<u>84.9</u>	<u>104.3</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,083,068	3,847,762
Prepaid lease payments		–	143,511
Right-of-use assets		142,998	–
Intangible assets		95,405	100,618
Deposits paid for the acquisition of property, plant and equipment		76,644	67,958
Interests in joint ventures		16,462	16,665
Interest in associates		19,619	18,552
Loan to a joint venture		97,755	97,755
Deferred tax assets		22,335	23,233
Goodwill		2,622	2,682
		<hr/> 4,556,908	<hr/> 4,318,736
CURRENT ASSETS			
Inventories	<i>11</i>	550,384	585,919
Properties under development for sale		263,163	145,842
Prepaid lease payments		–	4,259
Trade and other receivables	<i>12</i>	290,527	266,143
Bills receivable		156,105	113,020
Amount due from a joint venture		14,120	14,946
Amount due from an associate		1,199	526
Amounts due from related companies		16,138	12,115
Bank balances and cash		246,404	593,074
		<hr/> 1,538,040	<hr/> 1,735,844
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	366,898	377,799
Bills payable		131,763	84,377
Contract liabilities		55,157	50,690
Amount due to a related company		15,307	757
Taxation payable		85,677	100,845
Lease liabilities		1,850	–
Bank borrowings – due within 1 year		587,538	926,519
		<hr/> 1,244,190	<hr/> 1,540,987
NET CURRENT ASSETS		<hr/> 293,850	<hr/> 194,857
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 4,850,758	<hr/> 4,513,593

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
NON-CURRENT LIABILITIES			
Other payables	<i>13</i>	40,747	47,659
Contract liabilities		9,877	–
Deferred tax liabilities		38,697	39,576
Bank borrowings – due after 1 year		910,914	947,693
		<u>1,000,235</u>	<u>1,034,928</u>
NET ASSETS		<u>3,850,523</u>	<u>3,478,665</u>
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		3,768,023	3,396,165
TOTAL EQUITY		<u>3,850,523</u>	<u>3,478,665</u>

Notes:

1. GENERAL

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

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

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

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

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 –2017 Cycle

Except as described below, the application of the new and 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.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) at transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People's Republic of China (the "PRC") was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.3%.

	1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	<u>7,757</u>
Lease liabilities discounted at relevant incremental borrowing rate	7,469
Less:	
Recognition exemption – short term leases	<u>(1,151)</u>
Lease liabilities as at 1 January 2019	<u>6,318</u>
Analysed as:	
Current	3,439
Non-current	<u>2,879</u>
	<u>6,318</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of use assets relating to operating leases recognised upon application of HKFRS16	6,376
Reclassified from prepaid lease payments (<i>note</i>)	<u>147,770</u>
	<u>154,146</u>
By class:	
Leasehold land	147,770
Land and buildings	<u>6,376</u>
	<u>154,146</u>

note: Upfront payments for leasehold land in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$4,259,000 and HK\$143,511,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The transition to HKFRS 16 has no material impact on the Group's retained profits as at 1 January 2019.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 At 1 January 2019 HK\$'000
Retained profits	<u>58</u>

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets			
Prepaid lease payments	143,511	(143,511)	–
Right-of-use assets	–	154,146	154,146
Current Assets			
Prepaid lease payments	4,259	(4,259)	–
Current Liabilities			
Lease liabilities	–	3,439	3,439
Non-current Liabilities			
Lease liabilities	–	2,879	2,879
Capital and Reserves			
Reserves	<u>3,396,165</u>	<u>58</u>	<u>3,396,223</u>

note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to 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 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
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 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 9, HKAS 39 and HKFRS7	Interest Rate Benchmark Reform ⁴

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

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the Group's 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 from major products**

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Caustic soda	1,395,256	1,684,170
Chloromethane products	993,162	949,344
Polymers	421,070	477,405
Hydrogen peroxide	264,796	334,085
Fluorochemical products	121,792	196,247
Styrene-acrylic latex surface sizing agent	44,136	68,123
Others	236,359	167,403
	<u>3,476,571</u>	<u>3,876,777</u>

(d) **Information about major customers**

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

5. **OTHER INCOME**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Bank interest income	4,368	6,567
Interest income from a joint venture	522	488
Government grants	76,256	27,544
Scrap sales	7,776	7,266
Electricity and steam income	27,296	29,537
Rental income	2,260	2,526
Others	924	1,993
	<u>119,402</u>	<u>75,921</u>

6. **OTHER GAINS AND LOSSES**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net gain from changes in fair value of financial assets at fair value through profit or loss	3,742	14,285
Loss on disposal of property, plant and equipment	(3,998)	(4,311)
Loss on termination of lease arrangements	(152)	–
	<u>(408)</u>	<u>9,974</u>

7. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	144,451	202,044
PRC Withholding tax on dividend income	14,348	90,869
Overprovision in prior years – EIT	(9,044)	(8,563)
Deferred tax:		
Current year	389	208
	150,144	284,558

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 2018 and 2019, 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% as they have been qualified as High and New Technology Enterprise.

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

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

8. PROFIT FOR THE YEAR

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	50,695	52,489
Other staff costs:		
Salaries and other benefits (excluding directors)	252,305	233,034
Retirement benefit schemes contributions (excluding directors)	14,419	15,286
	<u>317,419</u>	<u>300,809</u>
Total staff costs		
Finance costs:		
Interest on bank borrowings	77,533	93,823
Lease liabilities	222	–
Less: amounts capitalised to property, plant and equipment (<i>note</i>)	–	(293)
	<u>77,755</u>	<u>93,530</u>
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration:		
– Audit services	1,850	1,575
– Non-audit services	225	225
Cost of inventories recognised as expenses	2,090,457	2,061,551
Depreciation of property, plant and equipment	332,343	348,730
Depreciation of right-of-use assets	6,530	–
Amortisation of prepaid lease payments	–	3,485
Amortisation of intangible assets	3,052	3,598
	<u>341,925</u>	<u>355,813</u>
Total depreciation and amortisation		
Capitalised in inventories	(295,173)	(312,493)
	<u>46,752</u>	<u>43,320</u>

note: During the year ended 31 December 2018, certain borrowing costs capitalised arose from specific borrowings and were calculated by applying a capitalisation rate of 4.75% 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\$700,771,000 (2018: HK\$872,641,000) and 825,000,000 (2018: 825,000,000) shares in issue during the year.

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

Weighted average number of ordinary shares (diluted)

	2019 <i>'000 Shares</i>	2018 <i>'000 Shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	825,000	825,000
Effect of deemed issue of shares under the Company's share option scheme	–	11,071
	<u>825,000</u>	<u>836,071</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>825,000</u>	<u>836,071</u>

10. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends recognised as distributions during the year:		
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	–
Final dividend of HK20 cents per share for the year ended 31 December 2017	–	165,000
Interim dividend of HK23 cents per share for the year ended 31 December 2018	–	189,750
	<u>272,250</u>	<u>354,750</u>

A final dividend of HK15 cents (2018: HK15 cents) per share amounting to HK\$123,750,000 (2018: HK\$123,750,000) in respect of the year ended 31 December 2019 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Raw materials and consumables	394,661	388,544
Work in progress	22,780	40,938
Finished goods	132,943	156,437
	<hr/>	<hr/>
	550,384	585,919
	<hr/> <hr/>	<hr/> <hr/>

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\$115,432,000 (2018: HK\$103,288,000), and the ageing analysis of trade receivables based on invoice date at the end of the reporting period is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Not exceeding 30 days	103,929	94,910
31–60 days	8,376	7,107
61–90 days	2,748	477
91–120 days	81	184
Over 120 days	298	610
	<hr/>	<hr/>
Trade receivables	115,432	103,288
Prepayments	102,014	101,798
Deposits to suppliers	18,983	23,401
Value-added tax receivables	36,950	20,885
Other receivables	17,148	16,771
	<hr/>	<hr/>
Total trade and other receivables	290,527	266,143
	<hr/> <hr/>	<hr/> <hr/>

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\$107,160,000 (2018: HK\$121,102,000). The ageing analysis of trade payables based on invoice date at the end of the reporting period is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Not exceeding 30 days	62,624	69,264
31–60 days	16,807	26,261
61–90 days	3,692	6,977
Over 90 days	24,037	18,600
Trade payables	107,160	121,102
Construction costs payable and accruals	137,338	109,268
Value-added tax accruals	16,136	40,741
Other payables	103,872	108,265
Other accruals	43,139	46,082
Total trade and other payables	407,645	425,458
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Analysed for reporting purposes as		
Non-current liabilities	40,747	47,659
Current liabilities	366,898	377,799
	407,645	425,458

As at 31 December 2019, the balance of other payables included a non-current deferred income, amounting to HK\$29,080,000 (2018: HK\$35,728,000), received from the PRC government for an innovative technology project.

14. COMPARATIVE FIGURES

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

FINAL DIVIDEND

The Directors have proposed a final dividend of HK15 cents per share for the year ended 31 December 2019 to shareholders whose names appear on the Register of Members on 29 April 2020. 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 20 May 2020.

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 24 April 2020. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 21 April 2020 to 24 April 2020, 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 20 April 2020.

In relation to the proposed final dividend

The board of directors of the Company has resolved to recommend the payment of a final dividend of HK15 cents per share in cash for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on 29 April 2020 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 4 May 2020 to 7 May 2020, 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 29 April 2020.

BUSINESS REVIEW

For the year ended 31 December 2019, the Group recorded a revenue of HK\$3,477 million, representing a decrease of 10.3% as compared with last year; and a net profit of HK\$701 million for the year, representing a decline of 19.7% as compared with last year.

The Group recorded a gross profit margin of 39.9%, representing a decrease of 6.9 percentage points as compared with last year; while net profit margin was recorded at 20.2%, representing a drop of 2.3 percentage points as compared with last year.

During the year under review, due to Sino-US trade conflicts, downstream players of the industry became more prudent in procurement, market demand for chemical products thus experienced relatively higher volatility. As a result, the overall market price of chemical products gradually fell from their high levels in 2018. The Group proactively enhanced occupational safety measures and made significant investments in modern technologies and holistic staff training, with the aim of obtaining ‘Grade A Safe Production Standardization Enterprise Certification’, thus ensuring sustainable development under safe production conditions. This exercise inevitably exerted pressure on gross profit and affected the profit margins of the Group.

PROSPECTS

The novel coronavirus outbreak has undoubtedly presented difficult challenges to the business environment of domestic enterprises in virtually all sectors. Nevertheless, with the signing of the first-phase trade agreement between China and the United States, the tensions resulting from the Sino-US trade situation and the external economic conditions are likely to be alleviated. As the Group expects challenging business prospects in 2020, it will strive to maintain a cost-effective operation while exploring sources of business growth.

Sales of commercial hydrogen have begun in the fourth quarter of 2019, contributing to the development of hydrogen-cell batteries. Construction of the infrastructure of the new factory in Gaolan Port, Zhuhai, is nearly completed. Production of the Group’s internally-developed lithium battery electrolyte additives is expected to commence by mid-2020. Furthermore, the Group will also continue its dedication to the research and commercialization of specialty polymers, lithium battery chemicals and innovative surface treatment agents, as well as further vertical expansion to widen the variety of downstream products.

In view of the increased strengthening of the industrial safety and environmental protection requirements of the PRC government, the Group will be committed to improving internal control standards, so as to achieve sustainable development. Moreover, the Group will strive to promote the concept of green manufacturing, and to practice a clean, efficient and low-carbon development management, in order to be socially responsible through energy conservation and emission reduction, 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 2019 was HK\$3,477 million and HK\$701 million respectively, representing a decrease of 10.3% and a decrease of 19.7%, as compared to HK\$3,877 million and HK\$872 million respectively for the last year.

The basic earnings per share was HK84.9 cents for the year ended 31 December 2019 (2018: HK105.8 cents).

Revenue

During the year under review, the Group recorded a decrease of approximately HK\$400 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 RMB850, decreased by 23%; the average selling price per ton of methylene chloride and chloroform was approximately RMB3,200 and RMB2,800, decreased by 11% and 10% respectively; the average selling price per ton of polytetrafluoroethylene was approximately RMB49,000, decreased by 23%.

The actual production volume of our primary products for the year (including self-consumption) was approximately 350,000 tons for CMS products, 540,000 tons for 100% dry basis caustic soda, 8,000 tons for polytetrafluoroethylene and 230,000 tons for hydrogen peroxide.

Despite the overall increase in production volume of our primary products, the selling prices of our primary products had fallen from the peak in early 2018 and comparable decline in costs of certain major raw materials had not been observed. During the year under review, gross profit margin of the Group decreased by 6.9 percentage points, from 46.8% of last year to 39.9% of current year, and net profit margin decreased by 2.3 percentage points, from 22.5% of the last year to 20.2% 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\$215 million, decreased by approximately HK\$16 million as compared to HK\$231 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 hiked sales volume and the decrease in average transportation costs. The selling and distribution costs represented approximately 6.2% of total revenue for the year and was comparable to that of 6.0% of the last year.

Administrative expenses

During the year under review, administrative expenses amounted to approximately HK\$213 million, decreased by approximately HK\$13 million as compared to HK\$226 million of the last year. The decrease in expenses for the year mainly attributable to the business benefiting from the reduced VAT in China and the decrease in depreciation charges. The administrative expenses represented approximately 6.1% of total revenue for the year, as compared to 5.8% for the last year.

Research and development cost

During the year under review, research and development costs amounted to approximately HK\$139 million and representing 4% of total revenue for the year. During the year, continuous spending are made to research and development of new products and optimization of technical processes, recruitment 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\$78 million, decreased by approximately HK\$16 million as compared to HK\$94 million of the last year. The decrease in expenses was mainly due to the decrease in outstanding loan balances and overall interest rates.

Net exchange loss

During the year under review, the net exchange loss was approximately HK\$10 million. The net exchange loss of the Group is mainly driven by the fluctuation of Renminbi in 2019.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2019 was 98 days, increased by 10 days as compared to 88 days of the last year.

Due to stringent credit control of the Group, the debtors' turnover days of the Group was controlled at 25 days for the year ended 31 December 2019 as compared to 28 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 38 days for the year ended 31 December 2019 as compared to 27 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 2019 was HK\$3,851 million (31.12.2018: HK\$3,479 million). As at 31 December 2019, the Group had current assets of HK\$1,538 million (31.12.2018: HK\$1,736 million) and current liabilities of HK\$1,244 million (31.12.2018: HK\$1,541 million). The current ratio was 1.24 as at 31 December 2019 as compared to 1.13 at 31 December 2018.

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 2019, the Group had outstanding bank borrowings of HK\$1,498 million (31.12.2018: HK\$1,874 million). These bank loans were secured by corporate guarantees provided by the Company and its certain subsidiaries. As at 31 December 2019, the Group maintained bank balances and cash of HK\$246 million (31.12.2018: HK\$593 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) as at 31 December 2019 was 32.52% (31.12.2018: 36.83%).

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 2019, 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\$261 million.

HUMAN RESOURCES

At 31 December 2019, 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 2019, 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 2019.

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 2019 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 2019 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 24 April 2020. 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, 5 March 2020

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.