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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)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

Chemical Operation

- Revenue of HK\$1,521 million for current year, decreased by 15.9% as compared to last year.
- Net profit of HK\$362 million for current year, decreased by 43.2% as compared to last year.
- Gross profit margin of 34.3% for current year.
- Net profit margin of 23.8% for current year.
- Earnings per share of HK43.9 cents for current year.
- Proposed final dividend of HK8 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 2012 together with comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	<i>Notes</i>	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Continuing operation			
Revenue	3	1,520,512	1,808,348
Cost of sales		(998,257)	(963,084)
Gross profit		522,255	845,264
Other income	5	144,630	55,298
Net gain (loss) on derivative financial instruments		6,970	(177)
Selling and distribution costs		(58,312)	(56,897)
General and administrative expenses		(106,788)	(138,959)
Research and development cost		(51,433)	(4,136)
Finance costs	7	(38,046)	(12,853)
Share of (loss) profit of jointly controlled entities		(325)	7
Profit before taxation		418,951	687,547
Income tax expense	6	(57,014)	(50,584)
Profit for the year from continuing operation		361,937	636,963
Discontinued operation			
Profit for the year from discontinued operation		-	33,327
Gain arising from reclassification of translation reserve upon distribution in specie		-	6,090
		-	39,417
Profit for the year	7	361,937	676,380
Other comprehensive (expense) income			
Exchange differences arising from translation		(2,116)	71,957
Reclassification of translation reserve upon distribution in specie		-	(6,090)
Share of reserve of jointly controlled entities		-	221
Fair value loss on hedging instruments in cash flow hedges		(4,503)	(2,963)
Other comprehensive (expense) income for the year		(6,619)	63,125
Total comprehensive income for the year		355,318	739,505
Earnings per share from continuing and discontinued operations :	8		
- Basic (HK cents)		43.9	82.0
- Diluted (HK cents)		43.9	81.4
Earnings per share from continuing operation :	8		
- Basic (HK cents)		43.9	77.2
- Diluted (HK cents)		43.9	76.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	<i>Notes</i>	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,346,493	1,124,535
Prepaid lease payments		63,291	45,454
Intangible assets		7,337	8,443
Deposits paid for the acquisition of property, plant and equipment		205,970	14,613
Deposit paid for land use right		9,046	3,045
Interests in jointly controlled entities		25,047	4,934
Loan to a jointly controlled entity		64,390	9,400
		<u>1,721,574</u>	<u>1,210,424</u>
CURRENT ASSETS			
Inventories	10	76,253	95,620
Prepaid lease payments		941	929
Trade and other receivables	11	160,038	293,601
Amount due from a jointly controlled entity		6,211	-
Derivative financial instruments		6,941	-
Bank balances and cash		1,520,219	1,233,108
		<u>1,770,603</u>	<u>1,623,258</u>
CURRENT LIABILITIES			
Trade and other payables	12	152,025	190,234
Amounts due to related companies		6,989	201
Taxation payable		12,629	14,738
Bank borrowings - due within 1 year		218,826	220,148
		<u>390,469</u>	<u>425,321</u>
NET CURRENT ASSETS		<u>1,380,134</u>	<u>1,197,937</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,101,708</u>	<u>2,408,361</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
AT 31 DECEMBER 2012

	<i>Notes</i>	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Bank borrowings - due after 1 year		1,198,130	746,600
Derivative financial instruments		<u>9,739</u>	<u>3,140</u>
		<u>1,207,869</u>	<u>749,740</u>
NET ASSETS			
		<u>1,893,839</u>	<u>1,658,621</u>
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		<u>1,811,339</u>	<u>1,576,121</u>
		<u>1,893,839</u>	<u>1,658,621</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"). Its ultimate holding company and immediate parent is Fortune Star Tradings Limited, a company which is incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Lee Wan Keung. The addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" to the annual report.

On 22 June 2011, as part of a reorganisation of the Group's businesses, the Company effected a spin-off of Lee & Man Development Company and its subsidiaries which are principally engaged in the manufacture and sale of handbags by way of a distribution in specie to the Company's shareholders on a pro rata basis (the "Spin-off").

Following the Spin-off, the Group was principally engaged in the manufacture and sale of chemical products (the "Chemical Business").

Prior to the Spin-off, the functional currency of the Company was United States dollars. Because of the Spin-off, the Company's remaining subsidiaries would principally operate in a Renminbi ("RMB") environment. The directors reassessed the functional currency of the Company and changed to RMB as RMB better reflects the underlying transactions, event and condition that are relevant to the Company.

The consolidated financial statements are presented in Hong Kong dollars as the Company is listed in Hong Kong.

The Company acts as an investment holding company and the principal activities of its principal subsidiaries are set out in note 35 of the annual report.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets.

The application of the above 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.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ¹
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for the Group for annual periods beginning on 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective for the Group until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made in the future.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC) - Int 12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and revised standards on consolidation, joint arrangements, associates and disclosures - continued

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) - Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. Based on the existing group structure, the application of these five standards is not expected to have impact on amounts reported in the consolidated financial statements and the application of HKFRS 11 will not result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using the equity method.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

3. REVENUE

An analysis of the Group's revenue for the year is as follows:

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Manufacture and sales of chemical products	<u>1,520,512</u>	<u>1,808,348</u>

4. SEGMENT INFORMATION

(a) Operating Segments

Information reported to the Chairman of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods sold.

The Group used to have two operating segments, namely, the Handbag Business and the Chemical Business and the Chemical Business with segment information being presented without allocating corporate expenses and balance. Following the Spin-off, 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 for both years other than entity wide disclosure.

(b) Geographical information

The Group's operations from continuing operation are located in the PRC.

The Group's revenue from continuing operation from external customers and information about its non-current assets by geographical location of the operations and assets are detailed below:

	<u>Revenue from</u> <u>external customers</u>		<u>Non-current assets</u>	
	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
PRC	1,469,726	1,795,854	1,657,184	1,201,024
The United States of America	48,555	12,494	-	-
Korea	2,231	-	-	-
	<u>1,520,512</u>	<u>1,808,348</u>	<u>1,657,184</u>	<u>1,201,024</u>

(c) Revenue from major products

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

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Chloromethane products	576,684	1,064,551
Caustic soda	663,532	582,029
Hydrogen peroxide	113,579	117,287
Others	166,717	44,481
	<u>1,520,512</u>	<u>1,808,348</u>

4. SEGMENT INFORMATION- continued

(d) Information about major customers

Revenue from sales to customers contributing over 10% of the total sales of the Group is as follow:

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Customer A	<u>N/A*</u>	<u>240,128</u>

*The corresponding revenue did not contribute over 10% of the total sales of the Group.

5. OTHER INCOME

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Bank interest income	64,378	25,858
Government grant (note)	34,980	16,011
Exchange gain	36,669	5,947
Others	8,603	7,482
	<u>144,630</u>	<u>55,298</u>

note : The Group recognises these grants as other income upon receipt.

6. INCOME TAX EXPENSE

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
The charge comprises :		
Current tax :		
PRC Enterprise Income Tax ("EIT")	56,963	95,158
EIT credit (note)	-	(44,623)
Other jurisdictions	51	49
	<u>57,014</u>	<u>50,584</u>

note : This represents EIT credit by the relevant tax authority calculated with reference to amount of qualified property, plant and equipment that the Group sourced within the PRC.

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 L&M is exempted from PRC income tax for two years starting from 2008, followed by a 50% reduction for the next three years. These tax holidays and concessions expire in 2012.

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 is no assessable profit for both years.

7. PROFIT FOR THE YEAR

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Continuing operation		
Profit for the year has been arrived at after charging :		
Directors' emoluments	38,651	73,110
Other staff costs:		
Salaries and other benefits (excluding directors)	52,765	44,304
Retirement benefit schemes contributions (excluding directors)	3,907	3,580
Total staff costs	<u>95,323</u>	<u>120,994</u>
Finance costs:		
Interest on bank borrowings wholly repayable within five years	33,962	11,345
Fair value of loss reclassified from equity to profit or loss on interest rate swaps designated as cash flow hedges on floating rate debt	4,084	1,508
	<u>38,046</u>	<u>12,853</u>
Release of prepaid lease payments	929	775
Amortisation of intangible asset	1,196	1,055
Auditors' remuneration	1,714	1,493
Cost of inventories recognised as expenses	998,257	963,084
Depreciation of property, plant and equipment	110,823	99,255
Loss on disposal of property, plant and equipment	<u>16</u>	<u>268</u>

8. EARNINGS PER SHARE

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

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
From continuing and discontinued operation		
Earnings from continuing and discontinued operations for the purposes of basic and diluted earnings per share	<u>361,937</u>	<u>676,380</u>
Number of ordinary shares for the purpose of basic earnings per share	825,000,000	825,000,000
Effect of dilutive potential ordinary shares:		
Share options	-	5,525,890
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>825,000,000</u>	<u>830,525,890</u>
From continuing operation		
Earnings from continuing operation for the purpose of basic and diluted earnings per share	<u>361,937</u>	<u>636,963</u>
Number of ordinary shares for the purpose of basic earnings per share	825,000,000	825,000,000
Effect of dilutive potential ordinary shares:		
Share options	-	5,525,890
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>825,000,000</u>	<u>830,525,890</u>

9. DIVIDENDS

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Dividends recognised as distributions during the year:		
Final dividend of HK12 cents per share for the year ended 31 December 2011	99,000	-
Interim dividend of HK8 cents per share for the year ended 31 December 2012	66,000	-
Final dividend of HK13 cents per share for the year ended 31 December 2010	-	107,250
Interim dividend of HK17 cents per share for the year ended 31 December 2011	-	140,250
	<u>165,000</u>	<u>247,500</u>

A final dividend of HK8 cents (2011: HK12 cents) per share amounting to HK\$66,000,000 (2011: HK\$99,000,000) in respect of the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

In addition to the above, during the year ended 31 December 2011, the Spin-off was effected by means of a distribution in specie whereby the net assets of the Handbag Group on the date of the Spin-off amounting to approximately HK\$195 million was effectively distributed to the Company's shareholders on a pro rata basis. Details of distribution are disclosed in note 38 of the annual report.

10. INVENTORIES

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Raw materials and consumables	44,811	56,784
Work in progress	7,048	8,809
Finished goods	<u>24,394</u>	<u>30,027</u>
	<u>76,253</u>	<u>95,620</u>

11. TRADE AND OTHER RECEIVABLES

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

Included in the balance are trade and bills receivables of HK\$75,769,000 (2011: HK\$243,790,000). The aged analysis of trade and bills receivables based on the invoice date at the end of the reporting period is as follows:

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Less than 30 days	72,307	236,398
31 – 60 days	2,665	7,392
61 – 90 days	797	-
	<u>75,769</u>	<u>243,790</u>
Prepayment	28,546	24,551
Deposits to suppliers	32,733	12,603
Value-added tax receivables	19,128	-
Other receivables	3,700	12,424
Other deposits	<u>162</u>	<u>233</u>
Total trade and other receivables	<u>160,038</u>	<u>293,601</u>

12. 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 are trade and bills payables of HK\$43,970,000 (2011: HK\$56,306,000). The aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	<u>2012</u> <i>HK\$'000</i>	<u>2011</u> <i>HK\$'000</i>
Less than 30 days	32,286	44,243
31 – 60 days	2,374	3,473
61 – 90 days	2,534	1,120
Over 90 days	6,776	7,470
	43,970	56,306
Receipt in advance	26,472	59,167
Construction payable	24,926	23,819
Value-added tax accruals	21,559	5,026
Other payables	9,267	20,980
Other accruals	25,831	24,936
Total trade and other payables	152,025	190,234

FINAL DIVIDEND

The Directors have proposed a final dividend of HK8 cents per share for the year ended 31 December 2012 to shareholders whose names appear on the Register of Members on 23 May 2013. 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 30 May 2013.

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 13 May 2013. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 9 May 2013 to 13 May 2013, 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 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 8 May 2013.

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 HK8 cents per share in cash for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on 23 May 2013 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 21 May 2013 to 23 May 2013, 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 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 20 May 2013.

BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded a revenue of HK\$1,521 million, decreased by 15.9% as compared to last year; and a net profit of HK\$362 million for current year, representing a drop of 43.2% as compared to last year (excluding the profit from discontinued handbag business).

The significant decrease in current year profit was mainly attributable to the sluggish global economy and PRC economic growth slowdown. The Group's main products demand fell amid the market oversupply. Product prices dropped sharply compared with last year, resulting in the decrease in profit margin

During the year, there was significant fluctuation in products prices. As compared to last year, the average selling price per ton of our main chemical products, namely methylene chloride and chloroform, dropped sharply by approximately 44% and 54% respectively during the year whereas the by-product average selling price per ton rose by approximately 13%. In addition, the average purchase costs of raw materials, mainly including industrial crude salt and methanol, was stable.

As affected by the above factors, gross profit margin of the Group for the year ended 31 December 2012 dropped from 46.7% of the last year to 34.3% and the net profit margin (excluding the profit from discontinued handbag business) decreased from 35.2% to 23.8%.

PROSPECTS

For the coming year, the key business focus of the Group will remain on the construction of a new plant in Ruichang City, Jiangxi Province. The Group intends to spend about RMB1.9 billion for development of the fluorochemical downstream products in two phases. The first production line was originally planned to put into operation in the first half of 2013. Since the frequent rainstorms with record high rainfall during 2012 in Jiangxi province affected the progress of construction works, the expected date to commence operation for the production line will be postponed to the fourth quarter of 2013.

The project will be financed by internal funds and bank borrowings. As at 31 December 2012, the Group maintained bank balances and cash of approximately HK\$1.52 billion. The Group has sufficient cash and available banking facilities to meet its 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 31 December 2012 was HK\$1,877 million (31.12.2011 : HK\$1,659 million). As at 31 December 2012, the Group had current assets of HK\$1,771 million (31.12.2011 : HK\$1,623 million) and current liabilities of HK\$407 million (31.12.2011: HK\$425 million). The current ratio was 4.3 as at 31 December 2012 as compared to 3.8 at 31 December 2011.

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 2012, the Group had outstanding bank borrowings of HK\$1,417 million (31.12.2011: HK\$967 million). These bank loans were secured by corporate guarantees provided by the company and its certain subsidiaries. As at 31 December 2012, the Group maintained bank balances and cash of HK\$ 1,520 million (31.12.2011: HK\$1,233 million). The Group's net cash-to-equity ratio (cash and cash equivalents net of total borrowings over shareholders' equity) as at 31 December 2012 was 0.06.

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 COMMITMENTS

As at 31 December 2012, 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 in amount of HK\$424 million.

HUMAN RESOURCES

At 31 December 2012, the Group had a workforce of around 1,000 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 2012, 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 2012 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, comprising all the independent non-executive directors of the Company, has reviewed the result of the Group for the year ended 31 December 2012 and has discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 13 May 2013. 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, 18 March 2013

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, Mr. Yang Zuo Ning and Ms. Wong Yuet Ming, 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.