

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2022

FINANCIAL HIGHLIGHTS

- Revenue increased 13.1% to HK\$5,867 million driven by increase in sales quantity
- Profit decreased by 10.2% to HK\$1,157 million in 2022
- Gross profit margin of Chemical operations decreased 6.3 p.p. to 39.1% due to high inflationary pressure
- One-off non-cash write-down on commercial properties and ancillary facilities of HK\$158 million
- Proposed final dividend of HK17 cents per share; including the interim dividend paid, total dividends for 2022 are HK55 cents per share (2021: HK58 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 2022 together with comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Revenue – Chemical		5,772,679	4,991,425
Revenue – Property		94,358	194,517
Total revenue	3, 4	5,867,037	5,185,942
Cost of sales – Chemical		(3,517,156)	(2,729,240)
Cost of sales – Property		(226,340)	(117,778)
Total cost of sales		(3,743,496)	(2,847,018)
Gross profit		2,123,541	2,338,924
Other income	5	66,853	65,936
Other gains and losses	6	2,385	(4,792)
Selling and distribution costs		(254,372)	(233,117)
General and administrative expenses		(276,924)	(299,365)
Research and development cost		(204,006)	(230,888)
Finance costs		(38,657)	(47,623)
Net exchange (loss) gain		(21,013)	23,251
Share of gain (loss) of joint ventures		176	(583)
Share of gain (loss) of associates		136	(662)
Profit before taxation		1,398,119	1,611,081
Income tax expense	7	(241,344)	(323,072)
Profit for the year	8	1,156,775	1,288,009
Other comprehensive (expenses) income			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation		(519,565)	155,568
<i>Item that may be reclassified to profit or loss:</i>			
Share of other comprehensive (expenses) income of joint ventures and associates		(9,658)	5,729
Other comprehensive (expenses) income for the year		(529,223)	161,297
Total comprehensive income for the year		627,552	1,449,306
Earnings per share	9		
– Basic (<i>HK cents</i>)		140.2	156.1
– Diluted (<i>HK cents</i>)		134.4	150.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,747,743	5,041,104
Investment properties		187,778	–
Right-of-use assets		133,849	153,052
Intangible assets		87,531	99,299
Deposits paid for the acquisition of property, plant and equipment		64,545	20,363
Interests in joint ventures		98,654	109,955
Interests in associates		24,338	21,980
Deferred tax assets		20,647	23,372
Goodwill		2,622	2,896
		5,367,707	5,472,021
CURRENT ASSETS			
Inventories	11	844,137	762,475
Properties held for sale		64,950	126,792
Properties under development		–	374,001
Trade, bills and other receivables	12	338,392	528,947
Tax recoverable		7,129	196
Amounts due from joint ventures		14,225	15,607
Amount due from an associate		5,707	2,133
Amounts due from related companies		12,411	10,978
Bank balances and cash		421,696	324,882
		1,708,647	2,146,011
CURRENT LIABILITIES			
Trade and other payables	13	492,521	613,221
Contract liabilities		66,466	120,772
Amounts due to joint ventures		259	–
Amount due to an associate		167	–
Amount due to a related company		10,861	10,004
Taxation payable		37,985	159,892
Lease liabilities		2,398	2,178
Bank borrowings		523,156	432,699
		1,133,813	1,338,766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
NET CURRENT ASSETS		<u>574,834</u>	<u>807,245</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,942,541</u>	<u>6,279,266</u>
NON-CURRENT LIABILITIES			
Other payables	13	30,415	36,065
Lease liabilities		71	2,190
Deferred tax liabilities		58,178	65,876
Bank borrowings		<u>220,836</u>	<u>600,205</u>
		<u>309,500</u>	<u>704,336</u>
NET ASSETS		<u><u>5,633,041</u></u>	<u><u>5,574,930</u></u>
CAPITAL AND RESERVES			
Share capital		82,500	82,500
Reserves		<u>5,550,541</u>	<u>5,492,430</u>
TOTAL EQUITY		<u><u>5,633,041</u></u>	<u><u>5,574,930</u></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\$”) as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND 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 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 Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018–2020</i>

The application of the amendments to HKFRSs in the current year has 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.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ³
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> ¹
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

Except for below mentioned, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Caustic soda	2,269,352	1,532,655
Chloromethane products	1,509,527	1,456,661
Fluorochemical products	202,483	195,935
Hydrogen peroxide	401,820	451,399
Liquified chlorine	46,093	122,908
Polymers	872,716	731,885
Styrene acrylic latex surface sizing agent	73,184	77,482
Lithium-ion battery additives	41,687	20,306
Others	<u>355,817</u>	<u>402,194</u>
Manufacture and sale of chemical products	5,772,679	4,991,425
Sale of properties	<u>94,358</u>	<u>194,517</u>
	<u><u>5,867,037</u></u>	<u><u>5,185,942</u></u>

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

4. OPERATING SEGMENTS

The Group manages its different businesses by their unique attributes. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, below describes the operations in each of the Group's identified reportable operating segments as at 31 December 2022:

- Chemical: manufacture and sale of chemical products
- Property: development and sale of properties, properties held for rental and supply of related property services

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable operating segment on the following bases.

Revenue and expenses are allocated to the reportable operating segments with reference to revenue directly generated by those segments and the expenses directly incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before other income, other gains or losses, finance cost, net exchange (loss) gain, share of results of joint ventures and associates, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses.

Assets and liabilities are centrally-managed and assessed by the Group's most senior executive management. No segment information on assets and liabilities is therefore presented.

Segment information below is presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment.

(a) Segment revenues and results

For the year ended 31 December 2022

	Chemical <i>HK\$'000</i>	Property <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	<u>5,772,679</u>	<u>94,358</u>	<u>5,867,037</u>
Segment results	<u>1,608,680</u>	<u>(166,318)</u>	1,442,362
Unallocated head office and corporate expenses			(54,123)
Other income			66,853
Other gains and losses			2,385
Finance costs			(38,657)
Net exchange loss			(21,013)
Share of results of joint ventures and associates			<u>312</u>
Profit before tax			<u>1,398,119</u>

For the year ended 31 December 2021

	Chemical HK\$'000	Property HK\$'000	Consolidated HK\$'000
Revenue from external customers	<u>4,991,425</u>	<u>194,517</u>	<u>5,185,942</u>
Segment results	<u>1,620,657</u>	<u>47,358</u>	1,668,015
Unallocated head office and corporate expenses			(92,461)
Other income			65,936
Other gains and losses			(4,792)
Finance costs			(47,623)
Net exchange gain			23,251
Share of results of joint ventures and associates			<u>(1,245)</u>
Profit before tax			<u>1,611,081</u>

(b) Geographical information

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

(c) Revenue from major customers

None of the corresponding revenue from customers contribute over 10% of the total revenue of the Group for the years ended 31 December 2022 and 2021.

(d) Other segment information

Amount included in the measure of segment profit or loss:

For the year ended 31 December 2022

	Chemical HK\$'000	Property HK\$'000
Depreciation	76,091	4,627
Amortisation	2,893	–
Write-down on properties held for sale	–	157,676

For the year ended 31 December 2021

	Chemical HK\$'000	Property HK\$'000
Depreciation	57,021	4,384
Amortisation	2,940	–

5. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank interest income	5,287	4,133
Interest income from a joint venture	614	656
Government grants	45,446	19,393
Scrap sales	6,251	11,584
Electricity and steam income	4,667	16,890
Rental income	2,873	2,770
Others	1,715	10,510
	<u>66,853</u>	<u>65,936</u>

6. OTHER GAINS AND LOSSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net gain (loss) from changes in fair value of financial assets at fair value through profit or loss	5,172	(3,091)
Loss on disposal of property, plant and equipment	(2,787)	(1,701)
	<u>2,385</u>	<u>(4,792)</u>

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	211,366	255,716
PRC Land Appreciation Tax ("LAT")	11,150	26,181
PRC withholding tax on dividend income	43,279	38,386
Hong Kong Profits Tax	1,458	874
Other jurisdictions	–	741
Overprovision in prior years – EIT	(21,872)	(13,689)
Deferred tax – current year	(4,037)	14,863
	<u>241,344</u>	<u>323,072</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 2021 and 2022, Jiangsu Lee & Man Chemical Limited ("Jiangsu L&M") is entitled to a favourable EIT rate of 15% to 2024; and Jiangxi Lee & Man Chemical Limited ("Jiangxi L&M") is entitled to a favourable EIT rate of 15% to 2023. Both companies are qualified as High and New Technology Enterprise and the favourable EIT is subject to renewal for every three years.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been levied at progressive rates ranging from 30% to 60% on the appreciation of land value, represented by the excess of sale proceeds of properties over prescribed direct costs. Prescribed direct costs are defined to include costs of land use rights, development and construction costs, as well as certain costs relating to the property development. According to the State Administration of Taxation's official circulars, LAT shall be payable provisionally upon sale of the properties, followed by final ascertainment of the gain at the completion of the properties development.

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the years ended 31 December 2022 and 31 December 2021.

8. PROFIT FOR THE YEAR

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	33,479	59,358
Other staff costs (excluding directors):		
Salaries and other benefits	373,158	332,742
Retirement benefit schemes contributions	19,552	14,643
	<hr/>	<hr/>
Total staff costs	426,189	406,743
Capitalised in inventories	(241,350)	(178,709)
	<hr/>	<hr/>
	184,839	228,034
	<hr/> <hr/>	<hr/> <hr/>
Finance costs:		
Interest on bank borrowings	38,498	49,346
Lease liabilities	159	235
Less: amounts capitalised to property, plant and equipment	–	(1,958)
	<hr/>	<hr/>
	38,657	47,623
	<hr/> <hr/>	<hr/> <hr/>
Auditors' remuneration		
– Audit services	1,685	2,041
– Non-audit services	830	465
Cost of inventories recognised as expenses (including write-down of properties held for sale of HK\$157,676,000 (2021: nil)) (<i>note</i>)	3,743,496	2,847,018
Depreciation of property, plant and equipment	395,968	366,822
Depreciation of right-of-use assets	5,892	6,036
Amortisation of intangible assets	2,893	2,940
	<hr/>	<hr/>
Total depreciation and amortisation	404,753	375,798
Capitalised in inventories	(327,852)	(318,777)
	<hr/>	<hr/>
	76,901	57,021
	<hr/> <hr/>	<hr/> <hr/>

Note: The write-down of properties held for sale was related to commercial property and its ancillary facilities considering the real estate market condition in the PRC in 2022.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$1,156,775,000 (2021: HK\$1,288,009,000) and 825,000,000 (2021: 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.

	2022 '000	2021 '000
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	<u>35,825</u>	<u>28,607</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>860,825</u></u>	<u><u>853,607</u></u>

10. DIVIDENDS

	2022 HK\$'000	2021 HK\$'000
Dividends recognised as distributions during the year:		
Final dividend of HK16.5 cents per share for the year ended 31 December 2020	–	136,125
Interim dividend of HK26 cents per share for the year ended 31 December 2021	–	214,500
Final dividend of HK32 cents per share for the year ended 31 December 2021	264,000	–
Interim dividend of HK38 cents per share for the year ended 31 December 2022	<u>313,500</u>	<u>–</u>
	<u><u>577,500</u></u>	<u><u>350,625</u></u>

A final dividend of HK17 cents (2021: HK32 cents) per share amounting to HK\$140,250,000 (2021: HK\$264,000,000) in respect of the year ended 31 December 2022 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials and consumables	521,950	502,407
Work in progress	47,226	53,236
Finished goods	274,961	206,832
	<u>844,137</u>	<u>762,475</u>

12. TRADE, BILLS AND OTHER RECEIVABLES

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

The ageing analysis of trade receivables and bills receivable based on invoice date/date of revenue recognition at the end of the reporting period is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Not exceeding 30 days	111,019	137,225
31–60 days	7,450	15,609
61–90 days	4,627	3,098
91–120 days	2,221	920
Over 120 days	4,113	55
Trade receivables, at amortised cost	<u>129,430</u>	<u>156,907</u>
Not exceeding 30 days	61,538	172,807
31–60 days	9,745	16,202
61–90 days	3,313	2,141
91–120 days	2,810	2,805
Over 120 days	5,732	10,944
Bills receivable, at fair value through other comprehensive income	<u>83,138</u>	<u>204,899</u>
Prepayments	43,171	87,138
Deposits to suppliers	42,177	33,148
Value-added tax receivables	28,855	37,859
Other receivables	11,621	8,996
Total trade, bills and other receivables	<u>338,392</u>	<u>528,947</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.

The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Not exceeding 30 days	116,709	137,019
31–60 days	24,610	27,138
61–90 days	14,327	5,430
Over 90 days	28,165	18,175
	<hr/>	<hr/>
Trade payables	183,811	187,762
Construction costs payable and accruals	165,754	251,113
Other payables	115,749	140,742
Value-added tax accruals	7,771	22,355
Other accruals	49,851	47,314
	<hr/>	<hr/>
Total trade and other payables	522,936	649,286
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Non-current liabilities	30,415	36,065
Current liabilities	492,521	613,221
	<hr/>	<hr/>
	522,936	649,286
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2022, the balance of other payables included a non-current deferred income, amounting to HK\$27,304,000 (2021: HK\$29,561,000), received from the PRC government for an innovative technology project. The amounts will be utilised to the relevant research and development expenses.

14. EVENT AFTER THE REPORTING PERIOD

On 21 February 2023, the Group obtained the state-owned land use right for a piece of land located in Matou Industrial Park, Ruichang City, Jiangxi Province, the PRC at an aggregate consideration of RMB55,795,000 (approximately HK\$62,000,000) for a term of 50 years. The land will be used for manufacturing high-end fluoropolymers and other chemicals for use in lithium batteries. A deposit of RMB11,159,000 (approximately HK\$12,398,000) was paid by the Group on 17 February 2023.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK17 cents per share for the year ended 31 December 2022 to shareholders whose names appear on the Register of Members on 18 May 2023. 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 31 May 2023.

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 9 May 2023. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 4 May 2023 to 9 May 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 3 May 2023.

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 HK17 cents per share in cash for the year ended 31 December 2022 to shareholders whose names appear on the register of members of the Company on 18 May 2023 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 14 May 2023 to 18 May 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 12 May 2023.

BUSINESS REVIEW

For the year ended 31 December 2022, the Group recorded total revenue of HK\$5,867 million, representing a year-on-year growth of 13.1%. Profit for the year amounted to HK\$1,157 million, representing a year-on-year decrease of 10.2%.

The Group’s gross profit margin of Chemical operations declined by 6.3 percentage points year-on-year to 39.1%; and overall net profit margin fell by 5.1 percentage points year-on-year to 19.7%.

With regard to the Group's *Chemical operations*, industrial demand remained robust during the year under review. However, high inflation pushed up raw material prices and the unit prices of chemical products fell from the fourth quarter of 2022, reducing the margin for gross profit growth for the Group's products. Nevertheless, the Group increased the production of products such as polytetrafluoroethylene (PTFE) since the middle of last year, driving sales growth and partially offsetting the impact of lower product prices on the Group's business performance. As for *Property operations*, the market responded positively to the fully completed property projects and Hong Kong-style mixed-use developments. The Group sold another 66 residential units at RIVERDALE during the year, generating sales revenue of approximately HK\$95 million for the year.

PROSPECTS

As China resumes Category B management of COVID-19 infections, domestic demand for various basic chemical products is expected to pick up. The return to normalcy around the world is also likely to improve supply chain imbalances. The Group will also begin leasing commercial space this year.

The Group has sought to expand its product range of specialty polymers to meet the unique needs of its customers. Since the Group launched the second phase of fluoropolymer production last year, it has also successfully developed fluorinated ethylene propylene (FEP) resin in addition to its existing highly effective specialty polymer PTFE resin products, and will continue to expand production this year. The Group has also upgraded its hydrochloric acid, which was originally a by-product, to a new product, chloromethane, and will also increase production in an orderly manner this year. The Group firmly believes that the stable quality of its products will continue to strengthen its brand foundation and serve as a moat to safeguard its profitability.

The Group's Zhuhai plant has gradually increased production since last year, and its electrolyte additives for lithium-ion batteries have received a positive response from customers. In the face of strong demand, the R&D team will work closely with downstream customers to increase production capacity in an orderly manner. The Group will also utilize the advantages of vertical integration at various production bases to diversify products related to new lithium battery materials, which will help increase industry recognition and market share and continue to expand its presence in the lithium battery-related product market.

The Group is also committed to promoting green production and practicing clean, highly efficient and low-carbon development and management, with the long-term goal of obtaining "Grade-A Safe Production Standardization Enterprise Certification" and bringing continuous and satisfactory 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 2022 was HK\$5,867 million and HK\$1,157 million respectively, representing an increase of 13.1% and a decrease of 10.2%, as compared to HK\$5,186 million and HK\$1,288 million respectively for the last year.

The basic earnings per share was HK140.2 cents for the year ended 31 December 2022 (2021: HK156.1 cents).

Revenue

Chemical operations

During the year under review, the Group recorded a revenue from Chemical operations of approximately HK\$5,773 million, representing an increase of HK\$781 million or 15.7% as compared to last year. The increase in revenue was mainly attributable to the unit selling price remained at high level across most of our main products driven by their keen demand in most times during the year under review.

The average selling price per ton (including value-added tax, similarly hereinafter) of methyl chloride, a new product of the Group, was about RMB5,000 during the year under review. As compared to the last year, the average selling price per ton of caustic soda was approximately RMB1,280, increased by 55%; the average selling price per ton of methylene chloride and chloroform was approximately RMB4,000 and RMB4,200, decreased by 11% and increased by 5% respectively; the average selling price per ton of polytetrafluoroethylene was approximately RMB54,500, decreased by 3%; the average selling price per ton of hydrogen peroxide was approximately RMB930, decreased by 16%.

The actual production volume of our primary products for the year (including self-consumption) was approximately 410,000 tons for CMS products, 570,000 tons for 100% dry basis caustic soda, 14,000 tons for polytetrafluoroethylene and 390,000 tons for hydrogen peroxide.

In 2022, the fourth quarter in particular, prices of major chemical products gradually normalized from their peaks. The prices of raw materials are raising due to inflation and putting on challenges to the gross profit margin of the Group. Yet benefited by the Group's continuous effort in expanding production volume and choices, the actual profit attributable to shareholders for the year can be maintained at a level similar to that of last year. The Group will maintain a stable full-load production of the existing product lineups and focus on improving the production capacity of electrolytes additives, as well as expanding the productions lines for other lithium battery chemicals. This enables the Group in maintaining strong profit margins and competing for more market share in market of lithium battery-related products at the same time.

Property operations

During the year under review, the Group recorded a revenue from Property operations of approximately HK\$95 million, arising from the further sale of 66 residential units of RIVERDALE. The unsold residential units of RIVERDALE was 75 at the year end. And to be more prudently prepare for the uncertainty on the recovery in the economy normalcy resumption in China, during the year under review the Group recognized an one-off write-down to commercial properties and ancillary facilities totaling approximately HK\$158 million.

Gross profit

During the year under review, gross profit amounted to HK\$2,124 million, a decrease of HK\$215 million. The decrease in gross margin was mainly attributable to the increase in material costs in Chemical operations as driven by the inflationary pressure and supply instability during the year under review. The one-off impairment of commercial properties and their ancillary facilities from the Property operations of approximately HK\$158 million also had a negative impact on gross profit.

Selling and distribution costs

During the year under review, selling and distribution costs amounted to approximately HK\$254 million, increased by approximately HK\$21 million as compared to HK\$233 million of the last year. The increase in expenses during the year under review was mainly due to additional packaging and transportation costs in alignment with increase in sales quantity of the Chemical operations. The selling and distribution costs represented approximately 4.3% of total revenue for the year, as compared to 4.5% for the last year.

Administrative expenses

During the year under review, administrative expenses amounted to approximately HK\$277 million, decreased by approximately HK\$22 million as compared to HK\$299 million of the last year. The decrease in administrative expenses during the year under review was mainly due to completion of the amortization of share-based payments expenses during the year. The administrative expenses represented approximately 4.7% 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\$204 million and representing 3.5% 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\$39 million, decreased by approximately HK\$9 million as compared to HK\$48 million of the last year. The decrease in expenses was mainly due to the repayments of the bank borrowings in the year.

Net exchange loss

During the year under review, the net exchange loss was approximately HK\$21 million. The net exchange loss of the Group is mainly driven by the depreciation of Renminbi in second half of 2022.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2022 was 82 days, decreased by 6 days as compared to 88 days of the last year.

The Group's debtors' turnover days was controlled at 18 days for the year ended 31 December 2022 as compared to 21 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 19 days for the year ended 31 December 2022 as compared to 30 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 2022 was HK\$5,633 million (2021: HK\$5,575 million). As at 31 December 2022, the Group had current assets of HK\$1,709 million (2021: HK\$2,146 million) and current liabilities of HK\$1,134 million (2021: HK\$1,339 million). The current ratio was 1.51 as at 31 December 2022 as compared to 1.60 at 31 December 2021.

The financial resources of the Group remain strong. As at 31 December 2022, the Group's bank balances and cash was HK\$422 million (2021: HK\$325 million) and the net debt amounted to HK\$322 million (2021: HK\$708 million). The net debt to equity ratio of the Group as at 31 December 2022 was 5.72% (2021: 12.70%).

During the year under review, the Group made use of the increase in cash generated from operating activities and actively lowered bank borrowings. The Group would continue to maintain 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 2022, 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 approximately HK\$252 million.

HUMAN RESOURCES

At 31 December 2022, the Group had a workforce of around 2,250 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 2022, 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 2022.

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 2022 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 2022 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 as approved by the Board of Directors on 1 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or 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 9 May 2023. 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, 1 March 2023

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.