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LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

(Incorporated in the Cayman Islands and its members' liability is limited)

Website: www.leemanchemical.com

(Stock Code: 746)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue decreased 31.0% to HK\$4,051 million driven by decrease in selling prices
- Profit decreased by 65.3% to HK\$401 million in 2023
- Gross profit margin of Chemical operations decreased 13.1 p.p. to 26.0% due to high inflationary pressure
- Proposed final dividend of HK14 cents per share; including the interim dividend paid, total dividends for 2023 are HK19 cents per share (2022: HK55 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 2023 together with comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Revenue – Chemical | | 3,980,919 | 5,772,679 |
| Revenue – Property | | 69,662 | 94,358 |
| Total revenue | 3, 4 | 4,050,581 | 5,867,037 |
| Cost of sales – Chemical | | (2,944,692) | (3,517,156) |
| Cost of sales – Property | | (43,718) | (226,340) |
| Total cost of sales | | (2,988,410) | (3,743,496) |
| Gross profit | | 1,062,171 | 2,123,541 |
| Other income | 5 | 79,946 | 66,853 |
| Other gains and losses | 6 | (13,619) | 2,385 |
| Selling and distribution costs | | (209,433) | (254,372) |
| General and administrative expenses | | (258,700) | (276,924) |
| Research and development costs | | (120,751) | (204,006) |
| Finance costs | | (39,282) | (38,657) |
| Net exchange loss | | (6,977) | (21,013) |
| Share of results of joint ventures and associates | | 543 | 312 |
| Profit before taxation | | 493,898 | 1,398,119 |
| Income tax expense | 7 | (93,233) | (241,344) |
| Profit for the year | 8 | 400,665 | 1,156,775 |
| Other comprehensive expense | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation | | (53,825) | (519,565) |
| Revaluation gain upon transfer of property, plant and equipment to investment properties | | 1,792 | – |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Share of other comprehensive expense of joint ventures and associates | | (418) | (9,658) |
| Other comprehensive expense for the year | | (52,451) | (529,223) |
| Total comprehensive income for the year | | 348,214 | 627,552 |
| Earnings per share | 9 | | |
| Basic (<i>HK cents</i>) | | 48.6 | 140.2 |
| Diluted (<i>HK cents</i>) | | 47.8 | 134.4 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

| | <i>Notes</i> | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 4,706,893 | 4,747,743 |
| Investment properties | | 217,582 | 187,778 |
| Right-of-use assets | | 196,132 | 133,849 |
| Intangible assets | | 83,885 | 87,531 |
| Deposits paid for the acquisition of property, plant and equipment | | 166,330 | 64,545 |
| Interests in joint ventures | | 98,780 | 98,654 |
| Interests in associates | | 23,888 | 24,338 |
| Deferred tax assets | | 19,908 | 20,647 |
| Goodwill | | 2,593 | 2,622 |
| | | 5,515,991 | 5,367,707 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 787,749 | 844,137 |
| Properties held for sale | | 23,806 | 64,950 |
| Trade, bills and other receivables | 12 | 408,230 | 338,392 |
| Tax recoverable | | 1,321 | 7,129 |
| Amounts due from joint ventures | | 11,140 | 14,225 |
| Amount due from an associate | | 1,796 | 5,707 |
| Amounts due from related companies | | 15,268 | 12,411 |
| Bank balances and cash | | 263,666 | 421,696 |
| | | 1,512,976 | 1,708,647 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 383,345 | 492,521 |
| Contract liabilities | | 59,102 | 66,466 |
| Amount due to a joint venture | | 525 | 259 |
| Amount due to an associate | | – | 167 |
| Amount due to a related company | | 8,551 | 10,861 |
| Taxation payable | | 46,167 | 37,985 |
| Lease liabilities | | 2,359 | 2,398 |
| Bank borrowings | | 671,767 | 523,156 |
| | | 1,171,816 | 1,133,813 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| NET CURRENT ASSETS | | <u>341,160</u> | <u>574,834</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>5,857,151</u> | <u>5,942,541</u> |
| NON-CURRENT LIABILITIES | | | |
| Other payables | 13 | 24,897 | 30,415 |
| Lease liabilities | | 4,789 | 71 |
| Deferred tax liabilities | | 27,710 | 58,178 |
| Bank borrowings | | <u>–</u> | <u>220,836</u> |
| | | <u>57,396</u> | <u>309,500</u> |
| NET ASSETS | | <u><u>5,799,755</u></u> | <u><u>5,633,041</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 82,500 | 82,500 |
| Reserves | | <u>5,717,255</u> | <u>5,550,541</u> |
| TOTAL EQUITY | | <u><u>5,799,755</u></u> | <u><u>5,633,041</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”). Its ultimate controlling party is Mr. Lee Man Yan, who is the chief executive officer and executive director of the Company. The address of the registered office and principal place of business of the Company are disclosed in the section “Corporate Information” to the annual report.

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

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

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

In 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, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

| | |
|--|--|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform – Pillar Two Model Rules |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. HKAS 1 Presentation of Financial Statements 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies in the consolidated financial statements.

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:

| | |
|------------------------------------|--|
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹ |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback ² |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ² |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants ² |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements ² |
| Amendments to HKAS 21 | Lack of Exchangeability ³ |

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE

Disaggregation of revenue from contracts with customers

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Caustic soda | 1,585,516 | 2,269,352 |
| Chloromethane products | 887,382 | 1,509,527 |
| Fluorochemical products | 201,559 | 202,483 |
| Hydrogen peroxide | 423,419 | 401,820 |
| Liquified chlorine | 13,690 | 46,093 |
| Polymers | 543,872 | 872,716 |
| Styrene acrylic latex surface sizing agent | 85,990 | 73,184 |
| Lithium-ion battery additives | 12,818 | 41,687 |
| Others | 226,673 | 355,817 |
| | <hr/> | <hr/> |
| Manufacture and sale of chemical products | 3,980,919 | 5,772,679 |
| Sale of properties | 67,552 | 94,358 |
| | <hr/> | <hr/> |
| Revenue from contracts with customers | 4,048,471 | 5,867,037 |
| Rental income | 2,110 | – |
| | <hr/> | <hr/> |
| Total revenue | 4,050,581 | 5,867,037 |

All of the Group's revenue from contracts with customers is recognised at a point in time and most of the revenue is derived from the PRC. Rental income is recognised over time.

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 2023 and 2022:

- Chemical: manufacture and sale of chemical products
- Property: development and sale of properties, properties held for rental, and supply of related properties 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 segment on the following bases.

Revenue and expenses are allocated to the reportable 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 costs, 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.

For "chemical" operations, the information reported to the Group's most senior executive management is further categorised into different locations within the PRC, each of which is considered as a separate operating segment by the Group's most senior executive management. For segment reporting, these individual operating segments have been aggregated into a single reportable segment as they share similar economic characteristics. For "property" operation, no operating segment has been aggregated in arriving at the reportable segment.

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 2023

| | Chemical <i>HK\$'000</i> | Property <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|------------------------------------|------------------------------------|--|
| Revenue from external customers | <u>3,980,919</u> | <u>69,662</u> | <u>4,050,581</u> |
| Segment results | <u>522,112</u> | <u>4,522</u> | 526,634 |
| Unallocated head office and corporate expenses | | | (53,347) |
| Other income | | | 79,946 |
| Other gains and losses | | | (13,619) |
| Finance costs | | | (39,282) |
| Net exchange loss | | | (6,977) |
| Share of results of joint ventures and associates | | | <u>543</u> |
| Profit before taxation | | | <u>493,898</u> |

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> |

(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 2023 and 2022.

(d) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2023

| | Chemical <i>HK\$'000</i> | Property <i>HK\$'000</i> |
|---------------------------|-----------------------------|-----------------------------|
| Depreciation | 57,033 | 4,622 |
| Amortisation | 2,724 | – |
| Write-down on inventories | <u>7,203</u> | <u>–</u> |

For the year ended 31 December 2022

| | Chemical <i>HK\$'000</i> | Property <i>HK\$'000</i> |
|--------------------------------------|-----------------------------|-----------------------------|
| Depreciation | 69,381 | 4,627 |
| Amortisation | 2,893 | – |
| Write-down on property held for sale | <u>–</u> | <u>157,676</u> |

5. OTHER INCOME

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Bank interest income | 4,048 | 5,287 |
| Interest income from a joint venture | 488 | 614 |
| Government grants | 64,660 | 45,446 |
| Scrap sales | 1,278 | 6,251 |
| Electricity and steam income | 5,085 | 4,667 |
| Rental income | 3,032 | 2,873 |
| Others | 1,355 | 1,715 |
| | <u>79,946</u> | <u>66,853</u> |

6. OTHER GAINS AND LOSSES

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Net fair value changes of financial assets at fair value through profit or loss | (2,109) | 5,172 |
| Loss on disposal of property, plant and equipment | (2,667) | (2,787) |
| Decrease in fair value of investment properties | (8,843) | – |
| | <u>(13,619)</u> | <u>2,385</u> |

7. INCOME TAX EXPENSE

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The charge comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax (“EIT”) | 80,294 | 211,366 |
| PRC Land Appreciation Tax (“LAT”) | 5,101 | 11,150 |
| PRC withholding tax on dividend income | 39,577 | 43,279 |
| Hong Kong Profits Tax | 538 | 1,458 |
| Overprovision in prior years – EIT | (2,644) | (21,872) |
| Deferred tax – current year | (29,633) | (4,037) |
| | <u>93,233</u> | <u>241,344</u> |

The Group’s major business is in the PRC. Under the Law of the PRC on EIT and its Implementation Regulation, the Group’s subsidiaries in the PRC are subject to corporate income tax at the rate of 25% (2022: 25%) except that four (2022: four) of these subsidiaries are entitled to a favourable EIT rate of 15% (2022: 15%) for the year ended 31 December 2023.

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.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2023 and 31 December 2022.

8. PROFIT FOR THE YEAR

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' emoluments | 17,629 | 33,479 |
| Other staff costs (excluding directors): | | |
| Salaries and other benefits | 328,430 | 373,158 |
| Retirement benefit schemes contributions | 18,968 | 19,552 |
| Total staff costs | 365,027 | 426,189 |
| Capitalised in inventories | (212,228) | (241,350) |
| | 152,799 | 184,839 |
| Finance costs: | | |
| Interest on bank borrowings | 39,224 | 38,498 |
| Lease liabilities | 58 | 159 |
| | 39,282 | 38,657 |
| Auditors' remuneration | | |
| – Audit services | 1,791 | 1,685 |
| – Non-audit services | 321 | 830 |
| Cost of inventories recognised as expenses (including write-down of inventories of HK\$7,203,000 (2022: write-down of properties held for sale of HK\$157,676,000 (<i>Note</i>))) | 2,988,410 | 3,743,496 |
| Depreciation of property, plant and equipment | 389,580 | 395,968 |
| Depreciation of right-of-use assets | 6,640 | 5,892 |
| Amortisation of intangible assets | 2,724 | 2,893 |
| Total depreciation and amortisation | 398,944 | 404,753 |
| Capitalised in inventories | (334,564) | (327,852) |
| | 64,380 | 76,901 |

Note: The write-down of properties held for sale was related to a commercial building 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 of HK\$400,665,000 (2022: HK\$1,156,775,000) and 825,000,000 (2022: 825,000,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year 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.

Number of shares

| | 2023 '000 | 2022 '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>13,289</u> | <u>35,825</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u><u>838,289</u></u> | <u><u>860,825</u></u> |

10. DIVIDENDS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-----------------------|-----------------------|
| Dividends recognised as distributions during the year: | | |
| 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 | – | 313,500 |
| Final dividend of HK17 cents per share for the year ended 31 December 2022 | 140,250 | – |
| Interim dividend of HK5 cents per share for the year ended 31 December 2023 | <u>41,250</u> | <u>–</u> |
| | <u><u>181,500</u></u> | <u><u>577,500</u></u> |

A final dividend of HK14 cents (2022: HK17 cents) per share amounting to HK\$115,500,000 (2022: HK\$140,250,000) in respect of the year ended 31 December 2023 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. INVENTORIES

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Raw materials and consumables | 531,468 | 521,950 |
| Work in progress | 41,057 | 47,226 |
| Finished goods | 215,224 | 274,961 |
| | <u>787,749</u> | <u>844,137</u> |

12. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows its trade customers a credit period ranged from 7 to 150 days.

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

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Not exceeding 30 days | 112,991 | 111,019 |
| 31–60 days | 31,498 | 7,450 |
| 61–90 days | 11,728 | 4,627 |
| 91–120 days | 13,587 | 2,221 |
| Over 120 days | 20,049 | 4,113 |
| Trade receivables at amortised cost | <u>189,853</u> | <u>129,430</u> |
| Not exceeding 30 days | 52,405 | 61,538 |
| 31–60 days | 35,303 | 9,745 |
| 61–90 days | 2,467 | 3,313 |
| 91–120 days | 3,050 | 2,810 |
| Over 120 days | 995 | 5,732 |
| Bills receivable at FVTOCI | <u>94,220</u> | <u>83,138</u> |
| Prepayments and deposits to suppliers | 88,716 | 85,348 |
| Value-added tax receivables | 22,578 | 28,855 |
| Other receivables | 12,863 | 11,621 |
| Total trade, bills and other receivables | <u>408,230</u> | <u>338,392</u> |

Before accepting any new customer, the Group assesses the potential customer's credit quality by investigating its historical credit record and then defines its credit limit. Trade receivables that are neither past due nor impaired are considered to be recovered based on historical experience.

At 31 December 2023, trade receivables (excluding bills receivable) of HK\$29,981,000 (2022: HK\$16,682,000) was past due. The Group does not hold any collateral over the overdue balance.

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:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Not exceeding 30 days | 88,893 | 116,709 |
| 31–60 days | 28,398 | 24,610 |
| 61–90 days | 6,846 | 14,327 |
| Over 90 days | 34,696 | 28,165 |
| | <hr/> | <hr/> |
| Trade payables | 158,833 | 183,811 |
| Construction costs payable and accruals | 129,550 | 165,754 |
| Other payables | 90,474 | 115,749 |
| Value-added tax accruals | 658 | 7,771 |
| Other accruals | 28,727 | 49,851 |
| | <hr/> | <hr/> |
| Total trade and other payables | 408,242 | 522,936 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysed for reporting purposes as: | | |
| Non-current liabilities | 24,897 | 30,415 |
| Current liabilities | 383,345 | 492,521 |
| | <hr/> | <hr/> |
| | 408,242 | 522,936 |
| | <hr/> <hr/> | <hr/> <hr/> |

As at 31 December 2023, the balance of other payables included a non-current deferred income, amounting to HK\$19,061,000 (2022: HK\$27,304,000), received from the PRC government for an innovative technology project. The amounts will be utilised to the relevant research and development expenses.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK14 cents per share for the year ended 31 December 2023 to shareholders whose names appear on the Register of Members on 21 May 2024. 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 5 June 2024.

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 2024. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 6 May 2024 to 9 May 2024, 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 2024.

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 HK14 cents per share in cash for the year ended 31 December 2023 to shareholders whose names appear on the register of members of the Company on 21 May 2024 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 16 May 2024 to 21 May 2024, 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 14 May 2024.

BUSINESS REVIEW

For the year ended 31 December 2023, the Group recorded total revenue of HK\$4,051 million, down 31.0% year-on-year, and profit for the year was HK\$401 million, a 65.3% plunge year-on-year. Gross profit margin of the chemical operations was 26.0%, 13.1 percentage points less when compared with 2022, and the Group’s net profit margin was 9.9%, down by 9.8 percentage points year-on-year.

Regarding the Group's **Chemical operations**, overall sentiment of the manufacturing industry in China remained weak, with prices of industrial raw materials, such as bulk chemical products, lingering on low. The serious fluctuation in the prices of lithium-ion battery raw materials also caused downstream enterprisers to actively adjust their production plans, leading to a significant drop in the selling prices of lithium-ion battery additives this year against the last corresponding period. With the inventory of raw materials purchased earlier gradually digested and at the Group strengthening cost control measures during the year, gross profit of the business rebounded from the first half of the year. As for **Property operations**, the Group sold another 47 residential units at *RIVERDALE* during the year, leaving only 28 held for sale units, and more than 80% of the commercial space were leased out, with the main drive coming from the *RIVERDALE Shangjia Residences* talent apartments. Property operations recorded revenue of approximately HK\$70 million for the period.

PROSPECTS

2024 will be a year testing to the operational resilience of enterprises. Consumption and manufacturing market sentiment will continue to be weak, and high interest rate will eat into the profits of enterprises and dampen their desire to invest. Facing an operating environment ridden with challenges, the Group will continue to promote Automated Production Control in all three of its plants and improve production efficiency and cost-effectiveness. It will also strive to maintain a low borrowing level to make sure its operating profit will not be eroded by high interest rates.

On top of guarding its existing business foundation, the Group will also actively invest resources in R&D of various high value-added chemical products and push for vertical integration of its production chain to give itself unique competitive advantage. The Group firmly believes that affording products of stable and high quality can enable to fortify brand foundation and boost profitability.

Although the new energy automobile industry has continued to grow rapidly, the battery material industry saw severe fluctuation last year. Looking ahead, the Group will work hard on enlarging relevant market shares of its battery material-related products, and revisit its future development plans. The Group expects to have the crucial capacity its lithium battery electrolyte additive business needs, when the vinylene carbonate ("VC") production line at its Changshu plant and the fluoroethylene carbonate ("FEC") expanded production line at its Zhuhai plant begin operation in the middle of this year. To cope with market changes, the Group is also preparing to adjust the purpose of the new land acquired in Jiangxi and use it to develop high-end fluoropolymers. Armed with years of experience producing fluoropolymers at its Jiangxi plant, the Group believes the transformation will enable it to realise steady development.

The Group will also put resources into studying ways to improve its production processes. It will continue to implement various plans to raise energy efficiency and conserve water, to the end of reducing carbon emissions from its plants during production, helpful for it to achieve sustainable development, while also bringing 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 2023 was HK\$4,051 million and HK\$401 million respectively, representing a decrease of 31.0% and a decrease of 65.3%, as compared to HK\$5,867 million and HK\$1,157 million respectively for the last year.

The basic earnings per share was HK48.6 cents for the year ended 31 December 2023 (2022: HK140.2 cents).

Revenue

Chemical operations

During the year under review, the Group recorded a revenue from Chemical operations of approximately HK\$3,981 million, representing a decrease of HK\$1,792 million or 31.0% as compared to last year. The decrease in revenue was mainly attributable to the decrease in average market prices of the Group's major products due to weak market conditions in most times during the year under review.

During the year under review, the average selling price per ton (including value-added tax, similarly hereinafter) of the products of the Group as compared to last year, the average selling price per ton of Chloromethane ("CMS") products (methyl chloride, methylene chloride and chloroform) was about RMB2,550, RMB2,725 and RMB2,475, decreased by approximately 50%, 31% and 41% respectively. Caustic soda was at about RMB950, decreased by approximately 26%. Polytetrafluoroethylene ("PTFE") was at about RMB47,325, decreased by approximately 13%, while hydrogen peroxide was at about RMB1,025, increased by approximately 10%.

The actual production volume of our primary products for the year (including self-consumption) was approximately 390,000 tons for CMS products, 560,000 tons for 100% dry basis caustic soda, 9,500 tons for polytetrafluoroethylene and 390,000 tons for hydrogen peroxide.

In 2023, prices of major chemical products remained at relatively low levels in recent years due to the weak market sentiment in the manufacturing sector. Combined with the time it takes to digest the inventory of raw materials purchased earlier, the gross profit margin of the Group is squeezed. During the year under review, the Group maintains a stable full-load production of the existing product line-ups while taking opportunities to improve efficiency and enhance processes of the production lines for improved efficiency and improve processes. By actively strengthening cost and efficiency advantages, the Group is laying a solid foundation to seize opportunities to embrace industry recovery in the future.

Property operations

During the year under review, the Group further sold of 47 residential units of *RIVERDALE*, recorded a revenue from Property operations of approximately HK\$70 million. At the year end, over 90% of residential units of *RIVERDALE* has been sold with 28 unsold units.

Gross profit

During the year under review, gross profit amounted to HK\$1,062 million, a decrease of HK\$1,062 million. The decrease in gross margin was mainly attributable to the combined effect during the year under review of the decline in product prices and the time required in digesting the raw material inventories acquired earlier in Chemical operations.

Selling and distribution costs

During the year under review, selling and distribution costs amounted to approximately HK\$209 million, decreased by approximately HK\$45 million as compared to HK\$254 million of the last year. The decrease in expenses during the year under review was mainly due to reduction in packaging and transportation costs. The selling and distribution costs represented approximately 5.2% of total revenue for the year, as compared to 4.3% for the last year.

Administrative expenses

During the year under review, administrative expenses amounted to approximately HK\$259 million, decreased by approximately HK\$18 million as compared to HK\$277 million of the last year. The decrease in administrative expenses during the year under review was mainly due to reduction in value-added tax and surcharges expenses recognised during the year. The administrative expenses represented approximately 6.4% of total revenue for the year, as compared to 4.7% for the last year.

Research and development cost

During the year under review, research and development costs amounted to approximately HK\$121 million and representing 3.0% 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, which is comparable to HK\$39 million of the last year. The fluctuation in expenses was mainly due to the interests saved from repaying the bank borrowings during the year was being offset by the hiking market interest rates.

Net exchange loss

During the year under review, the net exchange loss was approximately HK\$7 million. The net exchange loss of the Group is mainly driven by the depreciation of Renminbi in second half of 2023.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group for the year ended 31 December 2023 was 100 days, increased by 18 days as compared to 82 days of the last year.

The Group's debtors' turnover days was controlled at 22 days for the year ended 31 December 2023 as compared to 18 days for the last year, which is in line with the normal credit period of 7 days to 150 days granted to customers of the Group.

The Group's creditors' turnover days was 21 days for the year ended 31 December 2023 as compared to 19 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 2023 was HK\$5,800 million (2022: HK\$5,633 million). As at 31 December 2023, the Group had current assets of HK\$1,513 million (2022: HK\$1,709 million) and current liabilities of HK\$1,172 million (2022: HK\$1,134 million). The current ratio was 1.29 as at 31 December 2023 as compared to 1.51 at 31 December 2022.

The financial resources of the Group remain strong. As at 31 December 2023, the Group's bank balances and cash was HK\$264 million (2022: HK\$422 million) and the net debt amounted to HK\$408 million (2022: HK\$322 million). The net debt to equity ratio of the Group as at 31 December 2023 was 7.04% (2022: 5.72%).

During the year under review, the Group is actively optimizing financing cost structure through moderately increasing borrowings denominated in Renminbi. 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 2023, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and acquisition of right-of-use assets in amounts of approximately HK\$285 million and HK\$9 million.

HUMAN RESOURCES

At 31 December 2023, 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 2023, 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 2023.

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 2023 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 2023 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 audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 8 March 2024. 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 2024. 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, 8 March 2024

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely, Ms. Wai Siu Kee, Mr. Lee Man Yan, Professor Chan Albert Sun Chi and Mr. Yang Zuo Ning and three independent non-executive directors, namely Mr. Wan Chi Keung, Aaron BBS JP, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk.