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理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

FINANCIAL HIGHLIGHTS

- Revenue increased by 4.7% to HK\$8.70 billion as compared to the last corresponding period.
- Net profit increased by 22.7% to HK\$1.12 billion as compared to the last corresponding period.
- Earnings per share was HK24.03 cents.
- Declared interim dividend of HK8.5 cents per share.

* For identification purposes only

INTERIM RESULTS

The board of directors of Lee & Man Paper Manufacturing Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	<i>Notes</i>	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Revenue	3	8,695,428	8,308,212
Cost of sales		(6,901,649)	(6,846,739)
Gross profit		1,793,779	1,461,473
Other income		122,422	164,927
Net gain (loss) from fair value changes of derivative financial instruments		25,332	(12,526)
Distribution and selling expenses		(165,689)	(156,365)
General and administrative expenses		(416,674)	(305,384)
Finance costs	4	(71,097)	(113,983)
Profit before tax		1,288,073	1,038,142
Income tax expense	5	(167,974)	(125,603)
Profit for the period	6	1,120,099	912,539
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(528,340)	(170,959)
Total comprehensive income for the period		591,759	741,580
Dividends:	7		
– Dividend paid		348,750	341,640
– Interim dividend declared		391,527	317,907
		<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	8	24.03	19.46

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

		30 June 2015 (unaudited) <i>HK\$'000</i>	31 December 2014 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	22,574,937	22,464,660
Prepaid lease payments		745,960	763,789
Deposits paid for acquisition of property, plant and equipment and land use rights		203,469	134,958
Interest in a joint venture		1,799	1,799
Loan to a joint venture		94,015	91,690
Tax recoverable		72,430	62,988
		23,692,610	23,519,884
CURRENT ASSETS			
Inventories	10	2,977,233	3,257,891
Prepaid lease payments		13,963	17,602
Trade and other receivables	11	5,002,552	5,891,427
Amounts due from related companies		25,066	17,404
Derivative financial instruments		5,292	45
Bank balances and cash		1,393,497	2,032,567
		9,417,603	11,216,936
CURRENT LIABILITIES			
Trade and other payables	12	2,763,221	3,262,465
Amounts due to related companies		3,447	3,736
Amounts due to substantial shareholders		–	240,568
Derivative financial instruments		2,690	22,775
Tax payable		103,130	89,689
Bank borrowings		5,749,651	6,698,110
		8,622,139	10,317,343
NET CURRENT ASSETS		795,464	899,593
TOTAL ASSETS LESS CURRENT LIABILITIES		24,488,074	24,419,477

	30 June 2015	31 December 2014
	(unaudited)	(audited)
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Bank borrowings	6,048,060	6,162,679
Deferred tax liabilities	845,749	779,814
	<u>6,893,809</u>	<u>6,942,493</u>
	<u>17,594,265</u>	<u>17,476,984</u>
CAPITAL AND RESERVES		
Share capital	115,989	116,750
Reserves	17,478,276	17,360,234
	<u>17,594,265</u>	<u>17,476,984</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and Interpretations issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs and Interpretations in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Segment revenues and results

The following is an analysis of the Group’s revenue and results by reportable segment:

Six months ended 30 June 2015

	Packaging paper <i>HK\$’000</i>	Pulp <i>HK\$’000</i>	Tissue paper <i>HK\$’000</i>	Segment total <i>HK\$’000</i>	Eliminations <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
REVENUE						
External sales	8,264,004	346,022	85,402	8,695,428	–	8,695,428
Inter-segment sales	–	82,908	–	82,908	(82,908)	–
	<u>8,264,004</u>	<u>428,930</u>	<u>85,402</u>	<u>8,778,336</u>	<u>(82,908)</u>	<u>8,695,428</u>
SEGMENT PROFIT	<u>1,338,151</u>	<u>36,777</u>	<u>15,716</u>	<u>1,390,644</u>	<u>–</u>	<u>1,390,644</u>
Net gain from fair value changes of derivative financial instruments						25,332
Unallocated income						5,108
Unallocated expenses						(61,914)
Finance costs						(71,097)
Profit before tax						<u>1,288,073</u>

Six months ended 30 June 2014

	Packaging Paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	7,963,207	345,005	8,308,212	–	8,308,212
Inter-segment sales	–	32,620	32,620	(32,620)	–
	<u>7,963,207</u>	<u>377,625</u>	<u>8,340,832</u>	<u>(32,620)</u>	<u>8,308,212</u>
SEGMENT PROFIT	<u>1,160,666</u>	<u>10,553</u>	<u>1,171,219</u>	<u>–</u>	<u>1,171,219</u>
Net loss from fair value changes of derivative financial instruments					(12,526)
Unallocated income					11,907
Unallocated expenses					(18,475)
Finance costs					<u>(113,983)</u>
Profit before tax					<u>1,038,142</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Interest on bank borrowings wholly repayable within five years	151,630	169,109
Less: amounts capitalised to property, plant and equipment	<u>(80,533)</u>	<u>(55,126)</u>
	<u>71,097</u>	<u>113,983</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Income tax recognised in profit or loss:		
Current tax		
– PRC Enterprise Income Tax (“EIT”)	102,245	74,774
Overprovision in previous year		
– PRC EIT	(206)	(8,831)
Deferred tax		
– Charge to profit or loss	<u>65,935</u>	<u>59,660</u>
	<u>167,974</u>	<u>125,603</u>

The Group’s profit is subject to taxation from the place of its operations where its profit is generated and is calculated at the rate prevailing in the relevant jurisdictions.

PRC

Under the EIT Law of the PRC and its Implementation Regulations, the statutory tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain subsidiaries, however, are entitled to a reduced EIT rate due to preferential PRC EIT treatment for the calendar years of 2014 and 2015.

Hong Kong

During the year ended 31 March 2010, the Hong Kong Inland Revenue Department (“IRD”) commenced a field audit on the Hong Kong tax affairs of certain subsidiaries of the Company. Since then the IRD has issued protective profits tax assessments against these subsidiaries in the aggregate amount of HK\$374,385,000 for the years of assessment from 2003/2004 to 2008/2009 (i.e. the six financial years ended 31 March 2009).

The subsidiaries lodged objections with the IRD and the IRD agreed to holdover the tax claimed on the basis that the tax reserve certificates at certain amounts were purchased by the subsidiaries. As at 30 June 2015, the tax reserve certificates of HK\$72,430,000 (31 December 2014: HK\$62,988,000) have been purchased by these subsidiaries.

The directors believe that no provision for Hong Kong Profits Tax in respect of the above mentioned protective assessments is necessary. In addition, as far as the directors are aware, it is still in a liaison and discussion stage and the IRD has not yet expressed any formal opinion on the potential tax liability, if any, because the tax investigation has not completed.

No provision for taxation in Hong Kong has been made as the Group’s income neither arises in, nor is derived from Hong Kong.

Macau

The Macau subsidiaries incorporated under Decree-Law no.58/99/M are exempted from Macau complementary tax (Macau income tax) as long as they comply with the relevant regulations and do not sell their products to a Macau resident.

Vietnam

The Vietnam subsidiaries are subjected to Vietnam Corporate Income Tax at a maximum rate of 25%. No provision for Vietnam Corporate Income Tax has been made for both periods as the Vietnam subsidiaries incurred losses for both periods.

Other

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

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Directors' emoluments	18,797	12,142
Staff salaries and other benefits, excluding those of directors	381,878	396,964
Contributions to retirement benefit schemes, excluding those of directors	30,800	26,249
Total employee benefit expense	431,475	435,355
Cost of inventories recognised as expense	6,901,649	6,846,739
Amortisation of prepaid lease payments	6,404	6,298
Depreciation of property, plant and equipment	411,447	407,132
Total depreciation and amortisation	417,851	413,430
Loss on disposal of property, plant and equipment	668	3,546
Operating lease rentals in respect of land and buildings	4,747	5,623
Net foreign exchange loss	55,744	12,867
and after crediting (in other income):		
Income from supply of steam and electricity	34,148	39,461
Income from wharf cargo handling	31,704	30,731
Interest income from banks	5,108	11,907
Value added tax and other tax refund	9,015	21,829

7. DIVIDENDS

A final dividend of HK\$0.075 per share was paid in respect of the year ended 31 December 2014 (2014: a final dividend of HK\$0.073 per share were paid for the year ended 31 December 2013) to shareholders during the current period.

The directors determined that an interim dividend of HK\$0.085 (2014: HK\$0.068) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 27 August 2015.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	<u>1,120,099</u>	<u>912,539</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>4,661,381,215</u>	<u>4,689,074,420</u>

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, there were additions of HK\$929 million (2014: HK\$1,018 million) to property, plant and equipment to expand its operations.

10. INVENTORIES

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Raw materials	2,363,420	2,441,223
Finished goods	<u>613,813</u>	<u>816,668</u>
	<u>2,977,233</u>	<u>3,257,891</u>

11. TRADE AND OTHER RECEIVABLES

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade receivables	2,559,268	2,689,886
Less: allowance for doubtful debt	<u>–</u>	<u>(5,476)</u>
	2,559,268	2,684,410
Bills receivables	<u>1,185,813</u>	<u>1,923,853</u>
	3,745,081	4,608,263
Prepayments and deposits for purchase of raw materials	659,183	599,899
Other deposits and prepayments	80,449	88,014
VAT receivables	340,375	401,665
Other receivables	<u>177,464</u>	<u>193,586</u>
	<u>5,002,552</u>	<u>5,891,427</u>

The Group allows its customers an average credit period of 45 to 90 days. The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Aged:		
Not exceeding 30 days	2,592,928	3,476,684
31–60 days	899,552	842,643
61–90 days	181,567	202,880
91–120 days	17,846	39,624
Over 120 days	53,188	46,432
	3,745,081	4,608,263

12. TRADE AND OTHER PAYABLES

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade and bills payables	2,135,901	2,406,140
Construction fee payable	273,795	427,925
Accruals	133,550	159,112
Receipt in advance	79,206	118,505
Other payables	140,769	150,783
	2,763,221	3,262,465

The average credit period taken for trade purchases ranges from 30 to 120 days. The following is an aged analysis of the trade and bills payables presented based on the invoice date at the end of the reporting period.

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Aged:		
Not exceeding 30 days	866,605	933,141
31–60 days	419,042	606,852
61–90 days	335,716	473,231
91–120 days	492,092	375,957
Over 120 days	22,446	16,959
	2,135,901	2,406,140

13. REVIEW OF INTERIM ACCOUNTS

The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Audit Committee.

BUSINESS REVIEW AND OUTLOOK

For the six months period ended 30 June 2015, the Group recorded a total sales volume of 2.68 million tons, a total revenue of HK\$8.70 billion, a half-year net profit of HK\$1.12 billion, and a net profit per ton of HK\$417, maintaining an overall steady growth in profit.

The Group has entered the tissue paper market in order to expand business. The tissue paper with the corporate brand “Hanky” is to be produced and established in the fourth quarter this year. As the Group has its pulp production facilities in Chongqing, it can take advantage of the existing economies of scale to lower the costs of manufacturing tissue paper products. It is expected that the tissue business in the future will contribute further to the Group.

Apart from the tissue business, the Group will expand the packaging paper market in overseas and invest in the construction of paper factories in overseas to stay in line with the expansion of the Southeast Asian markets. It is expected that the paper machine project in Hau Giang, Vietnam will begin operation in the first quarter of 2016.

In order to solve the overcapacity and the environmental issues for the paper industry, the Government has been kept on closing down backward production capacities in the previous years. The supply over demand situation for the paper industry has been further improved and the industry has restored the pricing bargaining power. In the long run, the demand for packaging papers in China will keep on increasing and the Group feel confident in the future prospect of the paper industry.

Based on its consistent adoption of prudent strategies, and with a reasonable debt level, the Group will continue to increase its capacity in existing industrial parks and develop new industrial parks in tandem with the pace of economic development. The management of the Group will continue to make efforts to strictly control costs and strengthen capital operation in order to maintain the Group’s competitiveness in the paper industry. The Group’s business will continue under the leadership of an experienced and capable management team, with a view to further enhancing the Group’s profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company for the six months ended 30 June 2015 was HK\$8,695 million and HK\$1,120 million respectively and that for the corresponding period last year was HK\$8,308 million and HK\$913 million respectively. The earnings per share for the period was HK24.03 cents as compared to HK19.46 cents for the corresponding period last year.

The increase in Group’s container board sales revenue and volume was mainly due to full commercial operation of PM20 paper machine during the period. The Group maintained an overall steady growth in profit.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$166 million for the six months ended 30 June 2015 as compared to HK\$156 million for the six months ended 30 June 2014. It represented about 1.9% of the revenue for the six months ended 30 June 2015, and was comparable to the corresponding period last year.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$417 million for the six months ended 30 June 2015 as compared to HK\$305 million for the six months ended 30 June 2014, as a result of the expansion in the operation of the Group. It represented about 4.8% of the revenue for the six months ended 30 June 2015, and was increased as compared to that of 3.7% for the corresponding period last year.

Finance Costs

The Group's total borrowing costs (including the amounts capitalised) decreased by approximately 10.3% from HK\$169 million for the six months ended 30 June 2014 to HK\$152 million for the six months ended 30 June 2015. The decrease was mainly due to decrease in average amount of outstanding bank borrowings and the lower average interest rate during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 64 days and 13 days, respectively, for the six months ended 30 June 2015 as compared to 75 days and 18 days, respectively, for the year ended 31 December 2014. The improved inventory turnover days was due to the reduced raw material costs and the reduction of stock up period.

The Group's debtors' turnover days were 53 days for the six months ended 30 June 2015 as compared to 57 days for the year ended 31 December 2014. This is in line with the credit terms of 45 days to 90 days granted by the Group to its customers.

The Group's creditors' turnover days were 67 days for the six months ended 30 June 2015 as compared to 74 days for the year ended 31 December 2014 and is in line with the credit terms granted by the Group's suppliers.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 30 June 2015 was HK\$17,594 million (31 December 2014: HK\$17,477 million). As at 30 June 2015, the Group had current assets of HK\$9,418 million (31 December 2014: HK\$11,217 million) and current liabilities of HK\$8,622 million (31 December 2014: HK\$10,317 million). The current ratio was 1.09 as at 30 June 2015 and 31 December 2014.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong, Macau and the PRC. As at 30 June 2015, the Group had outstanding bank borrowings of HK\$11,798 million (31 December 2014: HK\$12,861 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2015, the Group maintained bank balances and cash of HK\$1,393 million (31 December 2014: HK\$2,033 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.62 as at 31 December 2014 to 0.59 as at 30 June 2015. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars, Renminbi, United States dollars or Euro. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2015. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

EMPLOYEES

As at 30 June 2015, the Group had a workforce of more than 6,100 employees. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.085 (2014: HK\$0.068) per share for the six months ended 30 June 2015 to shareholders whose names appear on the Register of Members on 27 August 2015. It is expected that the interim dividend will be paid around 3 September 2015.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 25 August 2015 to 27 August 2015, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accomplished by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 pm on 24 August 2015.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2015, the Company repurchased a total of 30,440,000 shares of HK\$0.025 per share through The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$125,728,000 (including transaction costs). Out of 30,440,000 shares repurchased, 20,000,000 shares were cancelled during the period while the remaining 10,440,000 shares will be cancelled subsequently. Details of shares repurchased during the period are set out as follows:

Month of repurchases	No. of ordinary shares of HK\$0.025 each	Price paid per share		Aggregate consideration paid (including expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
March 2015	18,700,000	3.79	3.61	69,542
April 2015	1,300,000	3.82	3.82	5,051
June 2015	10,440,000	4.96	4.73	51,135
	<u>30,440,000</u>			<u>125,728</u>

The directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding directors' securities transactions. All the members of the board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2015. The Model code also applies to other specified senior management of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2015.

AUDIT COMMITTEE

The Audit Committee of the Company comprised of three independent non-executive directors namely, Mr Chau Shing Yim David, Mr Wong Kai Tung Tony and Mr Peter A Davies.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control procedures and financial reporting matters including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2015.

On behalf of the Board
Lee Man Chun Raymond
Chairman

Hong Kong, 10 August 2015

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely Mr Lee Man Chun Raymond, Mr Lee Man Bun and Mr Li King Wai Ross, one non-executive director, namely Professor Poon Chung Kwong and three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Peter A Davies and Mr Chau Shing Yim David.