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理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

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

(Stock Code: 2314)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

- Revenue for the year of HK\$25,868 million (2019: HK\$27,144 million);
- Net profit for the year of HK\$3,653 million (2019: HK\$3,300 million);
- Net profit per ton about HK\$587 for the year;
- Stable payout ratio of about 37%, with proposed final dividend of HK18 cents per share.

* *For identification purposes only*

FINAL RESULTS

The Board of Directors (the “Board”) of Lee & Man Paper Manufacturing 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 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	25,867,966	27,144,210
Cost of sales		(20,120,028)	(22,051,176)
Gross profit		5,747,938	5,093,034
Other income	4	823,685	889,955
Impairment losses on trade receivables, net of reversal		59,961	(54,548)
Other gains and losses	5	(249,474)	191,688
Distribution and selling expenses		(717,620)	(612,268)
General and administrative expenses		(1,163,729)	(1,162,805)
Share of result of a joint venture		(8,772)	–
Finance costs	6	(170,517)	(324,861)
Profit before tax		4,321,472	4,020,195
Income tax expense	7	(668,960)	(719,930)
Profit for the year	8	3,652,512	3,300,265
Other comprehensive income (expense) <i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		2,319,219	(1,298,980)
Total comprehensive income for the year		5,971,731	2,001,285

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit (loss) for the year attributable to:			
Owners of the Company		3,523,823	3,235,605
Perpetual capital securities holders		128,707	64,721
Non-controlling interest		(18)	(61)
		<u>3,652,512</u>	<u>3,300,265</u>
 Total comprehensive income (expenses) attributable to:			
Owners of the Company		5,843,107	1,936,602
Perpetual capital securities holders		128,707	64,721
Non-controlling interest		(83)	(38)
		<u>5,971,731</u>	<u>2,001,285</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	<i>10</i>	<u>80.99</u>	<u>73.95</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	31,890,840	28,176,728
Right-of use-assets	<i>11</i>	1,120,714	1,040,495
Investment properties		596,563	584,336
Deposits paid for acquisition of property, plant and equipment and land use rights		1,030,661	1,106,741
Interest in a joint venture		87,771	–
Loan to a joint venture		71,376	98,343
		34,797,925	31,006,643
CURRENT ASSETS			
Inventories	<i>12</i>	4,350,064	3,571,075
Loan to a joint venture		–	61,656
Trade and other receivables	<i>13</i>	6,064,257	5,355,998
Bills receivables discounted with recourse		303,934	461,824
Amounts due from related companies		99,390	120,749
Bank balances and cash		1,184,921	2,919,462
		12,002,566	12,490,764
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	2,630,527	2,832,628
Advances drawn on bills receivables discounted with recourse		303,934	461,824
Amount due to related companies		16,056	15,663
Derivative financial instruments		–	3
Tax payable		252,605	189,424
Lease liabilities		17,518	4,867
Contract liabilities		108,948	81,395
Bank borrowings		5,255,174	4,874,429
		8,584,762	8,460,233
NET CURRENT ASSETS		3,417,804	4,030,531
TOTAL ASSETS LESS CURRENT LIABILITIES		38,215,729	35,037,174

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Bank borrowings		6,071,631	7,461,118
Lease liabilities		56,383	48,525
Deferred tax liabilities		1,337,300	1,444,911
		<u>7,465,314</u>	<u>8,954,554</u>
		<u>30,750,415</u>	<u>26,082,620</u>
CAPITAL AND RESERVES			
Share capital		108,666	109,170
Reserves		28,311,406	23,650,317
		<u>28,420,072</u>	<u>23,759,487</u>
Equity attributable to owners of the Company		28,420,072	23,759,487
Perpetual capital securities	<i>15</i>	2,322,814	2,322,814
Non-controlling interests		7,529	319
		<u>30,750,415</u>	<u>26,082,620</u>

NOTES:

1. APPLICATION OF 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 *Amendments to References to the Conceptual Framework in HKFRS Standards* and 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 annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 And HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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 HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the 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	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

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

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Companies Ordinance.

3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating and reportable segments under HKFRS 8 *Operating Segments*, based on information reported to the Company's executive directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, which focuses on types of goods delivered. The Group's operating and reportable segments under HKFRS 8 – *Operating Segments* are as follows:

- (i) Packaging paper – Kraft linerboard, test linerboard, coated duplex board, white top linerboard and high strength corrugating medium;
- (ii) Pulp; and
- (iii) Tissue paper.

Segment revenues and results

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

For the year ended 31 December 2020

	Packaging paper <i>HK\$'000</i>	Tissue Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Eliminations Consolidated <i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE						
External sales	21,517,453	4,316,881	33,632	25,867,966	–	25,867,966
Inter-segment sales	–	–	795,202	795,202	(795,202)	–
	<u>21,517,453</u>	<u>4,316,881</u>	<u>828,834</u>	<u>26,663,168</u>	<u>(795,202)</u>	<u>25,867,966</u>
SEGMENT PROFIT	<u>4,166,032</u>	<u>513,188</u>	<u>3,006</u>	<u>4,682,226</u>	–	4,682,226
Net gain from fair value changes of derivative financial instruments						4,851
Unallocated income						149,128
Unallocated expenses						(335,444)
Share of result of a joint venture						(8,772)
Finance costs						<u>(170,517)</u>
Profit before tax						<u>4,321,472</u>

For the year ended 31 December 2019

	Packaging paper HK\$'000	Tissue Paper HK\$'000	Pulp HK\$'000	Segment Total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	22,387,672	4,754,845	1,693	27,144,210	–	27,144,210
Inter-segment sales	–	–	926,144	926,144	(926,144)	–
	<u>22,387,672</u>	<u>4,754,845</u>	<u>927,837</u>	<u>28,070,354</u>	<u>(926,144)</u>	<u>27,144,210</u>
SEGMENT PROFIT	<u>3,514,538</u>	<u>563,472</u>	<u>253</u>	<u>4,078,263</u>	<u>–</u>	<u>4,078,263</u>
Net gain from fair value changes of derivative financial instruments						5,740
Unallocated income						310,118
Unallocated expenses						(49,065)
Finance costs						<u>(324,861)</u>
Profit before tax						<u>4,020,195</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of net gain from fair value changes of derivative financial instruments, rental income, interest income, net foreign exchange (loss) gain, share of result of a joint venture, finance costs and other unallocated administrative expenses. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

As at 31 December 2020

	Packaging paper HK\$'000	Tissue Paper HK\$'000	Pulp HK\$'000	Consolidated HK\$'000
Segment assets	35,988,909	7,802,914	1,823,747	45,615,570
Unallocated asset				<u>1,184,921</u>
Consolidated total assets				<u>46,800,491</u>
Segment liabilities	1,217,394	416,833	19,866	1,654,093
Unallocated liabilities				<u>14,395,983</u>
Consolidated total liabilities				<u>16,050,076</u>

As at 31 December 2019

	Packaging paper <i>HK\$'000</i>	Tissue Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	31,501,578	7,308,854	1,767,513	40,577,945
Unallocated asset				<u>2,919,462</u>
Consolidated total assets				<u>43,497,407</u>
Segment liabilities	993,060	521,363	23,540	1,537,963
Unallocated liabilities				<u>15,876,824</u>
Consolidated total liabilities				<u>17,414,787</u>

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to operating segments other than bank balances and cash and other assets used jointly by reportable segments, and all liabilities are allocated to operating segments other than derivative financial instruments, tax payable, bank borrowings, deferred tax liabilities and other liabilities for which reportable segments are jointly liable.

Revenue from major products

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Packaging paper (including linerboard and corrugating medium)	21,517,453	22,387,672
Tissue paper	4,316,881	4,754,845
Pulp	<u>33,632</u>	<u>1,693</u>
	<u>25,867,966</u>	<u>27,144,210</u>

Geographical information

Over 98% (2019: 95%) of the Group's revenue were derived from external customers in the PRC.

Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Non-current assets	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The PRC other than Hong Kong	27,421,297	26,067,151
Malaysia	4,713,285	2,343,481
Vietnam	2,393,838	2,465,140
Hong Kong	<u>269,505</u>	<u>130,871</u>
	<u>34,797,925</u>	<u>31,006,643</u>

Information about major customers

None of the Group's customers contributed over 10% of the Group's total revenue for the current and prior reporting period.

4. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Value added tax and other tax refund	435,118	434,513
Income from supply of steam and electricity	62,083	36,910
Income from wharf cargo handling	21,990	20,804
Sales of materials and waste paper	76,401	85,257
Interest income from banks	34,506	41,981
Others	193,587	270,490
	823,685	889,955

5. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net foreign exchange (loss) gain	(249,315)	193,197
Net gain from fair value changes of derivative financial instruments	4,851	5,740
Loss on disposal of property, plant and equipment	(5,010)	(7,363)
Others	–	114
	(249,474)	191,688

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest expense on lease liabilities	2,836	3,174
Interest on bank borrowings	311,545	415,048
Less: amounts capitalised to property, plant and equipment	(143,864)	(93,361)
	170,517	324,861

Borrowing costs capitalised during the year arose from the general borrowings and are calculated by applying a capitalisation rate ranging from 1.92% to 3.78% (2019: from 3.20% to 3.30%) per annum to expenditures on qualifying assets.

7. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	564,543	489,506
– PRC withholding tax on dividend distribution	201,225	218,700
– Others	–	567
	<u>765,768</u>	<u>708,773</u>
(Over)under-provision in previous year		
– The PRC EIT	(1,967)	3,797
Deferred tax		
– (Credit) charge to profit or loss	(94,841)	7,360
	<u>668,960</u>	<u>719,930</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.

The PRC

The Group’s subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that six (2019: six) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ended 31 December 2020.

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 rate of 10%. They are entitled to a corporate income tax exemption for four years from the first profit-making year and a reduction of 50% for the following nine years. No provision for Vietnam Corporate Income Tax has been made for both years as the Vietnam subsidiaries entitled tax exemption for both years.

Malaysia

The Malaysia subsidiaries are subjected to Malaysia Corporate Income Tax at a rate of 24%. No provision for Malaysia Corporate Income Tax has been made for both years as the Malaysia subsidiaries did not have assessable profits subject to Malaysia Corporate Income Tax during the years.

Others

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

8. PROFIT FOR THE YEAR

	2020	2019
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	41,725	38,345
Staff salaries and other benefits, excluding those of directors	1,192,593	1,105,753
Contributions to retirement benefit schemes, excluding those of directors	68,596	87,022
Total employee benefit expense	1,302,914	1,231,120
Capitalised in inventories	(877,613)	(901,030)
	425,301	330,090
Auditor's remuneration		
– Audit services	9,119	8,519
– Non-audit services	1,931	1,186
Cost of inventories recognised as expense	20,120,028	22,051,176
Depreciation of property, plant and equipment	1,307,308	1,293,075
Depreciation of investment properties	22,646	22,576
Depreciation of right-of-use assets	35,122	32,281
Total depreciation	1,365,076	1,347,932
Capitalised in inventories	(1,193,627)	(1,196,140)
	171,449	151,792
Operating lease rentals in respect of land and buildings	46,149	41,426
Gross rental income from investment properties	(30,744)	(24,196)
Less:		
– direct operating expenses incurred for investment properties that generated rental income during the year	366	419
– direct operating expenses incurred for investment properties that did not generate rental income during the year	–	350
	(30,378)	(23,427)

9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distribution:		
Final dividend of HK\$0.13 in respect of the year ended 31 December 2019 (2019: final dividend of HK\$0.15 in respect of the year ended 31 December 2018) per share	565,063	657,000
Interim dividend of HK\$0.12 in respect of the year ended 31 December 2020 (2019: interim dividend of HK\$0.13 in respect of the year ended 31 December 2019) per share	521,598	568,577
	<u>1,086,661</u>	<u>1,225,577</u>

A final dividend of HK\$0.18 per share in respect of the year ended 31 December 2020 (2019: final dividend of HK\$0.13 per share in respect of the year ended 31 December 2019) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

In addition, the Company has made a distribution on perpetual capital securities of HK\$128,707,000 (2019: HK\$64,721,000) to the securities holders during the year ended 31 December 2020.

10. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year attributable to owners of the Company of HK\$3,523,823,000 (2019: HK\$3,235,605,000) and weighted average number of 4,350,762,262 (2019: 4,375,449,449) shares in issue during the year.

No diluted earnings per share in both years was presented as there were no potential ordinary shares outstanding during both years.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the year, there were additions of HK\$3,511 million (2019: HK\$2,863 million) to property, plant and equipment to expand its operations.

During the year, the Group entered into leases for certain of its staff quarters and office premises for 1 year to 19 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognises HK\$72,237,000 of right-of-use assets and HK\$29,234,000 lease liabilities.

12. INVENTORIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials	3,427,090	2,743,664
Finished goods	922,974	827,411
	<u>4,350,064</u>	<u>3,571,075</u>

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivables of HK\$4,189,194,000 (2019: HK\$3,654,259,000).

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.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Aged:		
Not exceeding 30 days	3,258,482	3,579,848
31–60 days	639,587	35,789
61–90 days	97,206	4,925
91–120 days	58,014	15,811
Over 120 days	135,905	17,886
	<u>4,189,194</u>	<u>3,654,259</u>

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$1,455,188,000(2019: HK\$1,387,515,000).

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.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Aged:		
Not exceeding 30 days	644,824	759,184
31–60 days	290,524	189,914
61–90 days	252,961	243,733
91–120 days	118,145	123,059
Over 120 days	148,734	71,625
	<u>1,455,188</u>	<u>1,387,515</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued USD300 million perpetual capital securities at an issue price of 100 per cent which are listed on the Stock Exchange. Distribution is payable semi-annually in arrears based on a fixed rate of 5.5 per cent per annum. Distribution by the Issuer may be deferred at its sole discretion. These perpetual capital securities have no fixed maturity and are redeemable in whole, but not in part, at the Issuer’s option on 29 May 2024, or any distribution payment date falling thereafter at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower rank.

Distribution to holders of perpetual capital securities may be deferred at the Company’s discretion and in which event, the Company and the Issuer will not declare/pay any dividends or distributions, redeem, reduce, cancel or buy-back any of the Company’s and/or the Issuer’s share capital.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK18 cents (2019: HK13 cents) per share for the year ended 31 December 2020 to shareholders whose names appear on the Register of Members on 11 May 2021. 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 26 May 2021.

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 30 April 2021. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 27 April 2021 to 30 April 2021, 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 Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 26 April 2021.

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 HK18 cents per share in cash for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on 11 May 2021 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 6 May 2021 to 11 May 2021, 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 Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 5 May 2021.

BUSINESS REVIEW AND OUTLOOK

Business Review and Outlook

The global economy was severely impacted by several factors during 2020, primarily the effects from the global novel coronavirus (COVID-19) pandemic and the rising trade tensions between the US and China. As a result, the paper manufacturing industry has been faced with a number of challenges and adjustments. The COVID-19 pandemic was brought under control in China by the second half of 2020, enabling the resumption of production and a return to normal economic activities, which in turn led to both sales revenue and profit of the Group increasing for the second half of 2020 as compared with the first half of the year. For 2020, the Group recorded a total revenue of HK\$25.87 billion, decreasing by 4.7% from the previous year, while net profit increased by 10.7% to HK\$3.65 billion, and net profit attributable to owners of the Company for the year was HK\$3.52 billion. The earnings per share for the year were HK80.99 cents (2019: HK73.95 cents). The board of directors has proposed a final dividend of HK18 cents (2019: HK13 cents) per share for 2020. During the year, the aggregate sales of the Group amounted to 6.22 million tons, while its net profit per ton was HK\$587.

Industry and Business Review

With the promotion of supply-side reforms in Mainland China in recent years, as well as the restriction of new capacity investment owing to the tightening of environmental protection policies, both supply and demand within the industry have remained low. In the international arena, the signing of the first phase of the US-China trade agreement at the beginning of last year has reduced uncertainties. However, the COVID-19 pandemic and the ongoing tensions in the US-China relationship has affected consumer confidence. With the increase in the cost of paper production, the operation of the industry is still facing challenges. The Group has proactively responded to these changes in the market. We have been committed to developing a vertical business model through active consolidation of our upstream resources, covering pulp manufacturing and recycling of waste paper so as to achieve an integrated industrial chain ensuring the supply of raw materials. At the same time, the Group continues to expand its scale, control costs and strengthen production capacity leveraging its existing business; bringing more opportunities for business development and performance growth.

Business Prospects

The COVID-19 pandemic is under control in China and the domestic market is demonstrating a recovery in demand. In 2020, the GDP exceeded 100 trillion yuan for the first time. The Group will make a proactive effort to optimize the industrial chain in order to diversify its paper and pulp businesses. In the meantime, leveraging the foundation of its existing business, the Group will support the “Belt & Road” initiatives, targeting the Southeast Asia market for international development, and introduce new production capacities in countries such as Vietnam, Malaysia and Indonesia. In the future, we will continue to seek business opportunities in countries and cities along the Belt & Road and are confident in the long-term development of the region’s paper industry.

In regard to the tissue paper business, the Group considers it a major focus and has therefore established an integrated product chain. Lee & Man Paper has endeavored to improve the quality of consumer tissue and boost its scale of production. The Group produces natural bamboo unbleached tissue in order to satisfy people's needs for health and environmental protection as well as consumption requirements. The tissue business has maintained steady growth as a whole and our existing capacity reached up to 900,000 tons annually. The Group is focusing on the requirements of consumers and continues to adopt effective strategies for developing the tissue business.

Packaging paper remains the core business of the Group. With the increasing prevalence of online consumption in Mainland China and overseas, there is growing demand for quality packaging paper in the market. This coupled with the implementation of plastic limit order in Mainland China are favorable to the Group's packaging paper business. To cope with the full import ban on waste paper in Mainland China, effective from 2021, the Group will actively develop the recycled pulp business in Southeast Asia to replace imported waste paper and strengthen the allocation of raw materials in order to ensure its production cost advantage.

While providing quality products at reasonable prices to maintain its competitiveness, the Group is also committed to fulfilling its corporate social responsibility. It has reduced pollution and carbon emission by recycling waste paper and adopting advanced production technology so as to bring more eco-friendly products to customers. In the long term, the paper manufacturing industry will still have greater room for development. The Group will capture the opportunities to expand its market scale and maintain the Group's competitiveness in the paper manufacturing industry.

Conclusion

The Group would like to express its sincere gratitude to its employees and shareholders for their continued support. Leveraging its leading position in the paper manufacturing industry and its consistently solid development advantage, the Group intends to further enhance its profitability and maximize returns to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company for the year ended 31 December 2020 was HK\$25.87 billion and HK\$3.52 billion respectively, while its net profit per tonne was HK\$587.

The earnings per share for the year was HK80.99 cents when compared with HK73.95 cents for the year ended 31 December 2019.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$718 million for the year ended 31 December 2020 as compared to HK\$612 million for the year ended 31 December 2019. It represented about 2.8% of the revenue for the year ended 31 December 2020 and was increased as compared to about 2.3% for the year ended 31 December 2019.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$1,164 million for the year ended 31 December 2020 as compared to HK\$1,163 million for the year ended 31 December 2019. It represented about 4.5% of the revenue for the year ended 31 December 2020 and was comparable to about 4.3% for the year ended 31 December 2019.

Finance Costs

The Group's total finance costs (including the amounts capitalised) was HK\$314 million for the year ended 31 December 2020 as compared to HK\$418 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in both amounts and average interest rate on bank borrowings during the year.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 71 days and 10 days, respectively, for the year ended 31 December 2020 as compared to 54 days and 10 days, respectively, for the year ended 31 December 2019.

The Group's debtors' turnover days were 46 days for the year ended 31 December 2020 as compared to 39 days for the year ended 31 December 2019. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 30 days for the year ended 31 December 2020 as compared to 27 days for the year ended 31 December 2019.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 31 December 2020 was HK\$30,750 million (2019: HK\$26,083 million). As at 31 December 2020, the Group had current assets of HK\$12,003 million (2019: HK\$12,491 million) and current liabilities of HK\$8,585 million (2019: HK\$8,460 million). The current ratio was 1.40 as at 31 December 2020 as compared to 1.48 at 31 December 2019.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong, Macau and the PRC. As at 31 December 2020, the Group had outstanding bank borrowings of HK\$11,327 million (2019: HK\$12,336 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 31 December 2020, the Group maintained bank balances and cash of HK\$1,185 million (2019: HK\$2,919 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.36 as at 31 December 2019 to 0.33 as at 31 December 2020.

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 and United States dollars. 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 year ended 31 December 2020. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

Employees

As at 31 December 2020, the Group had a workforce of more than 9,300 people. Salaries of employees are maintained at 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 Group.

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.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, the Company repurchased a total of 20,166,000 shares of HK\$0.025 per share through the Stock Exchange at an aggregate consideration of approximately HK\$95,861,000 (including transaction costs). All of the shares repurchased were cancelled during the year. Details of shares repurchased during the year are set out as follows:

Month	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid (including expenses) HK\$'000
March	<u>20,166,000</u>	5.09	4.28	<u>95,861</u>

The Board believes 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 year.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board of the Company believes that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximising shareholders' interests. During the year under review, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

The objectives of the management structures within the Group, headed by the Board and led by the Chairman, are to deliver sustainable value to Shareholders.

The Chairman provides leadership to and oversees the effective functioning of the Board. With support of the Chief Executive Officer and the Company Secretary, the Chairman approves Board meeting agenda, and ensures Directors have proper briefing, and timely receive adequate and reliable information, on all Board matters.

The role of the Chairman is separate from that of the Chief Executive Officer, and different persons hold the separate offices. Chief Executive Officer heads the management and focuses on the day-to-day operations of the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the Group's consolidated financial statements for the year ended 31 December 2020, the accounting principles and practices adopted and discussed auditing, internal controls and financial reporting matters.

DIRECTORS' 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 in 2004. 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 year ended 31 December 2020. The Model Code also applies to other specified senior management of the Group.

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 2020 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 30 April 2021. 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 Chun Raymond
Chairman

Hong Kong, 2 March 2021

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