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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

FINANCIAL HIGHLIGHTS

- Revenue increased by 0.6% to HK\$15.3 billion as compared to the last corresponding period.
- Profit for the period decreased by 56.9% to HK\$863 million as compared to the last corresponding period.
- Earnings per share was HK18.46 cents.
- Declared interim dividend of HK6.50 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 2022 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 2022

	<i>Notes</i>	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Revenue	3	15,276,210	15,180,233
Cost of sales		<u>(13,619,852)</u>	<u>(11,842,397)</u>
Gross profit		1,656,358	3,337,836
Other income	4	374,522	392,801
Impairment losses on trade receivables, net of reversal		3,955	(63,345)
Other gains and losses, net	5	(2,309)	(74,516)
Distribution and selling expenses		(446,181)	(503,774)
General and administrative expenses		(598,371)	(723,644)
Finance costs	6	(38,243)	(32,784)
Profit before tax		949,731	2,332,574
Income tax expense	7	(87,136)	(332,391)
Profit for the period	8	862,595	2,000,183
Other comprehensive (expense)/income <i>Item that may be reclassified subsequently to to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(1,283,885)</u>	<u>585,749</u>
Total comprehensive (expense)/income for the period		<u>(421,290)</u>	<u>2,585,932</u>
Profit for the period attributable to:			
Owners of the Company:			
– Ordinary shareholders		797,448	1,935,969
– Perpetual capital securities holders		64,773	64,080
Non-controlling interests		<u>374</u>	<u>134</u>
		<u>862,595</u>	<u>2,000,183</u>

		2022	2021
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Total comprehensive (expense)/income attributable to:			
Owners of the Company:			
– Ordinary shareholders		(486,201)	2,521,682
– Perpetual capital securities holders		64,773	64,080
Non-controlling interests		138	170
		(421,290)	2,585,932
Dividends:			
– Dividend paid	9	474,927	782,396
– Interim dividend declared		280,575	651,996
		HK cents	HK cents
Earnings per share	10	18.46	44.54

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022 (unaudited) <i>HK\$'000</i>	31 December 2021 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	34,822,750	33,905,307
Right-of-use assets		1,013,132	1,122,222
Investment properties		576,027	605,591
Deposits paid for acquisition of property, plant and equipment		1,081,151	1,727,166
Interest in a joint venture		88,276	90,858
Interest in an associate		80,975	–
		37,662,311	37,451,144
CURRENT ASSETS			
Inventories	12	6,011,517	5,705,396
Loan to a joint venture		78,803	80,554
Trade and other receivables and prepayments	13	6,750,703	7,219,054
Amounts due from related companies		56,234	88,882
Bank balances and cash		1,831,514	1,908,813
		14,728,771	15,002,699
CURRENT LIABILITIES			
Trade and other payables	14	2,682,353	3,109,636
Amounts due to related companies		11,362	10,680
Tax payable		95,781	179,817
Lease liabilities		7,233	14,010
Contract liabilities		66,311	77,657
Advances drawn on bills discounted with recourse		108,303	123,903
Bank borrowings		9,744,586	8,674,747
		12,715,929	12,190,450
NET CURRENT ASSETS		2,012,842	2,812,249
TOTAL ASSETS LESS CURRENT LIABILITIES		39,675,153	40,263,393

		30 June 2022 (unaudited) HK\$'000	31 December 2021 (audited) HK\$'000
NON-CURRENT LIABILITIES			
Bank borrowings		5,787,570	5,386,012
Lease liabilities		44,450	53,032
Deferred tax liabilities		1,477,319	1,421,351
		<u>7,309,339</u>	<u>6,860,395</u>
		<u>32,365,814</u>	<u>33,402,998</u>
CAPITAL AND RESERVES			
Share capital		107,914	108,291
Reserves		29,926,946	30,963,891
		<u>30,034,860</u>	<u>31,072,182</u>
Perpetual capital securities	<i>15</i>	<u>2,322,814</u>	<u>2,322,814</u>
Equity attributable to owners of the Company		32,357,674	33,394,996
Non-controlling interests		8,140	8,002
		<u>32,365,814</u>	<u>33,402,998</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 (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

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

In addition, the Group applied the following agenda decision of the Committee of the International Accounting Standards Board (“Committee”) which is relevant to the Group: Cost necessary to sell inventories (HKAS 2 Inventories) (June 2021).

Except as described below, the application of the amendments to HKFRSs and the Committee’s agenda decisions in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and accounting policies on application of Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

2.1.1 Accounting policies

Property, plant and equipment

Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

2.1.2 Transition and summary of effects

The application of the amendments has had no material impact on the Group's condensed consolidated financial statements.

2.2 Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (HKAS 2 Inventories) (June 2021)

2.2.1 Accounting policies

Inventories

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2.2.2 Transition and summary of effects

The application of the Committee's agenda decision has had no material impact on the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Segment revenue and results

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

Six months ended 30 June 2022

	Packaging paper HK\$'000	Tissue paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	13,050,666	2,009,057	216,487	15,276,210	–	15,276,210
Inter-segment sales	–	–	553,175	553,175	(553,175)	–
	<u>13,050,666</u>	<u>2,009,057</u>	<u>769,662</u>	<u>15,829,385</u>	<u>(553,175)</u>	<u>15,276,210</u>
SEGMENT PROFIT	<u>609,615</u>	<u>285,906</u>	<u>60,222</u>	<u>955,743</u>	<u>–</u>	<u>955,743</u>
Net loss from fair value changes of derivative financial instruments						(285)
Unallocated income						51,417
Unallocated expenses						(18,901)
Finance costs						(38,243)
Profit before tax						<u>949,731</u>

Six months ended 30 June 2021

	Packaging paper HK\$'000	Tissue paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	12,978,844	2,014,964	186,425	15,180,233	–	15,180,233
Inter-segment sales	–	–	539,167	539,167	(539,167)	–
	<u>12,978,844</u>	<u>2,014,964</u>	<u>725,592</u>	<u>15,719,400</u>	<u>(539,167)</u>	<u>15,180,233</u>
SEGMENT PROFIT	<u>2,208,266</u>	<u>229,107</u>	<u>2,881</u>	<u>2,440,254</u>	<u>–</u>	<u>2,440,254</u>
Net gain from fair value changes of derivative financial instruments						56
Unallocated income						7,773
Unallocated expenses						(82,725)
Finance costs						(32,784)
Profit before tax						<u>2,332,574</u>

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Value added tax and other tax refund	182,660	242,746
Income from supply of steam and electricity, net	24,229	22,842
Income from wharf cargo handling, net	15,636	18,072
Interest income from banks	12,872	7,773
Others	139,125	101,368
	<u>374,522</u>	<u>392,801</u>

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment, net	(10,530)	(64,141)
Net foreign exchange differences	8,506	(10,431)
Net (loss)/gain from fair value changes of derivative financial instruments	(285)	56
	<u>(2,309)</u>	<u>(74,516)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings and advances drawn on bills discounted with recourse	92,815	93,283
Interest expense on lease liabilities	1,415	1,609
Less: amounts capitalised to property, plant and equipment	(55,987)	(62,108)
	<u>38,243</u>	<u>32,784</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	39,323	276,813
– Other jurisdictions	14,720	–
	<u>54,043</u>	<u>276,813</u>
Over provision in previous years		
– The PRC EIT	(19,088)	(295)
– Other jurisdictions	(3,787)	–
Deferred tax		
– Charge to profit or loss	55,968	55,873
	<u>87,136</u>	<u>332,391</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 (2021: six) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ending 31 December 2022.

Hong Kong

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

Macau

Macau Complementary Tax are calculated at 12% on the estimated assessable profits for both periods.

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. The Vietnam subsidiaries are entitled a reduction of 50% of Vietnam Corporate Income Tax rate of 10% for both periods.

Malaysia

The Malaysia subsidiaries are subjected to Malaysia Corporate Income Tax at a rate of 24% for both periods.

Others

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

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging/(crediting):		
Directors' emoluments	26,018	21,400
Staff salaries and other benefits, excluding those of directors	758,030	739,748
Contributions to retirement benefit schemes, excluding those of directors	72,965	64,850
	<u>857,013</u>	<u>825,998</u>
Total employee benefit expense	857,013	825,998
Capitalised in inventories	(616,501)	(623,933)
	<u>240,512</u>	<u>202,065</u>
Cost of inventories recognised as expense	13,619,852	11,842,397
Depreciation of property, plant and equipment	748,553	734,625
Depreciation of investment properties	12,594	12,267
Depreciation of right-of-use assets	20,481	20,395
	<u>781,628</u>	<u>767,287</u>
Total depreciation	781,628	767,287
Capitalised in inventories	(652,037)	(679,867)
	<u>129,591</u>	<u>87,420</u>
Gross rental income from investment properties	(17,680)	(17,396)
Less:		
– direct operation expenses incurred for investment properties that generated rental income during the period	122	203
	<u>122</u>	<u>203</u>
	<u>(17,558)</u>	<u>(17,193)</u>

9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

A final dividend of HK\$0.11 per share was paid in respect of the year ended 31 December 2021 (2021: a final dividend of HK\$0.18 per share was paid for the year ended 31 December 2020) to shareholders during the current period.

The directors determined that an interim dividend of HK\$0.065 (2021: HK\$0.15) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 26 August 2022.

In addition, the Company has made a distribution on perpetual capital securities of HK\$64,773,000 (2021: HK\$64,080,000) to the securities holders during the six months ended 30 June 2022.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period attributable to the owners of the Company approximately of HK\$797,448,000 (2021: HK\$1,935,969,000), ordinary shareholders for the period, and weighted average number of 4,319,785,326 (2021: 4,346,642,000) ordinary shares in issue during the period.

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

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, there were additions of HK\$2,629 million (2021: HK\$1,161 million) to property, plant and equipment to expand its operations.

12. INVENTORIES

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	3,670,795	3,835,648
Finished goods	2,340,722	1,869,748
	<u>6,011,517</u>	<u>5,705,396</u>

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Trade receivables	3,521,571	3,702,983
Less: allowance for credit losses	(24,420)	(90,622)
	3,497,151	3,612,361
Trade receivables backed by bills	497,818	922,430
Trade receivables backed by bills discounted with recourse	108,303	123,903
	4,103,272	4,658,694
Prepayments and deposits for purchase of raw materials	904,565	821,764
Other deposits and prepayments	559,033	440,920
Value-added tax receivable	501,553	604,352
Other receivables	682,280	693,324
	6,750,703	7,219,054

The Group allows its customers an average credit period of 45 to 90 days (2021: 45 to 90 days). The following is an aged analysis of trade receivables (excluding those backed by bills) presented based on the invoice date at the end of the reporting period.

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Aged:		
Not exceeding 30 days	2,299,487	2,484,000
31–60 days	878,433	815,845
61–90 days	116,323	145,587
91–120 days	31,754	36,425
Over 120 days	171,154	130,504
	3,497,151	3,612,361

14. TRADE AND OTHER PAYABLES

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Trade payables	1,462,128	1,673,234
Construction fee payable	410,776	464,008
Accruals	531,080	612,413
Other payables	278,369	359,981
	<u>2,682,353</u>	<u>3,109,636</u>

The average credit period taken for trade purchases ranges from 30 to 120 days (2021: 30 to 120 days). The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period.

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Aged:		
Not exceeding 30 days	736,564	926,901
31–60 days	318,790	279,882
61–90 days	212,392	235,635
91–120 days	160,469	190,296
Over 120 days	33,913	40,520
	<u>1,462,128</u>	<u>1,673,234</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued United States dollars 300,000,000 perpetual capital securities at an issue price of 100 per cent which are listed on the Stock Exchange. Distribution is payable semi-annually in arrear 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, reduce, cancel, buy-back or otherwise acquire any securities of lower rank.

16. REVIEW OF INTERIM ACCOUNTS

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

BUSINESS REVIEW AND OUTLOOK

Since the start of the year 2022, with the latest wave of COVID-19 breaking out, continuing slow down of the global economic growth, and the US markedly raising interest rate to curb high inflation, the market has become more and more concerned about economic prospects. For mainland paper manufacturers, their profitability has been under pressure as a result of rising prices of raw materials such as wood pulp, energy, and high logistics and transportation costs, plus lockdown of cities amid the pandemic leading to markedly weakened demand.

The Group's total revenue for the six months ended 30 June 2022 increased by 0.6% to HK\$15.3 billion as compared with the same period last year. Net profit decreased by 56.9% to HK\$863 million. Earnings per share for the period were HK18.46 cents (2021: HK44.54 cents).

The board of directors has proposed an interim dividend of HK6.50 cents per share for 2022 (2021: HK15 cents). The aggregate sales of the Group for the six months ended 30 June 2022 amounted to 2.96 million tons, with net profit per ton at HK\$292.

INDUSTRY AND BUSINESS REVIEW

During the period, while the price of international pulp in tight supply remained high and volatile, with dampened demand as a result of anti-pandemic restrictions, most of the paper manufacturers in the Mainland were unable to pass the costs downstream, thus industry profit at large narrowed. In response to changes in the market, the Group continued to consolidate upstream resources and develop a vertical business model covering pulp-making and waste paper recycling, implementing an integrated industrial chain and ensure raw material supply. At the same time, the Group kept seeking development opportunities while controlling costs, striving to realize its advantages of economies of scale to the full and consolidate profitability.

BUSINESS PROSPECTS

With the gradual easing of the pandemic in June and various measures being implemented in the Mainland to stabilize the economy and ensure people's livelihood, consumption sentiment is expected to recover steadily. The Group will continue to optimize its industrial chain to help with diversifying its paper and pulp businesses, and further improve operational stability and strengthen its profit base. Supporting the "Belt and Road" initiative, the Group has its eye on the Southeast Asian market in expanding its international market presence and, by making good use of local resources, strives to optimize operational efficiency. It has already established production capacity in countries such as Vietnam and Malaysia, in order to enhance the Group's revenue and production efficiency. The Group is confident of the long-term development of the paper manufacturing industry.

Packaging paper remains the Group's core business. In the future, China will continue to tighten control over plastic packaging, giving room for using paper packaging as a substitute, which will be in favor of the Group's packaging paper business. In addition, consumption behavior has changed amid the pandemic with more people shopping online, and correspondingly the demand for packaging paper has climbed. The Group is actively expanding its recycled pulp business and enhancing raw material deployment to safeguard its production cost advantage. It plans to add pulp production lines at its plants in Jiangxi province and Chongqing, so as to enhance raw materials supply. The new production lines are expected to start operation in 2023. Moreover, the Group is currently in early stages of coordinating land acquisition and plant construction in Cambodia.

Regarding tissue paper business, the Group has kept improving the quality of consumer tissue paper and boosting relevant production scale. The natural bamboo unbleached tissue it produces can satisfy consumers' demand for healthy life-style and environmentally-friendly products. The Group's total annual tissue paper production capacity is around 1,000,000 tons. It will expand capacity in line with market and customer demand and continue to adopt effective strategy to develop its tissue paper business. It plans to establish a new plant in Guangxi province and expects to add new production line with annual capacity of 300,000 tons of bleached pulp by the end of next year at the earliest.

The Group is committed to providing quality products at reasonable price while also fulfilling its corporate social responsibility. By recycling waste paper and adopting advanced production technologies, it has reduced pollution and carbon emissions, thus has been able to bring more environmentally-friendly products to customers. In the long term, the paper manufacturing industry still has much room for development. The Group will seize opportunities to expand its market and maintain competitiveness in the paper manufacturing industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue, the profit for the period and the profit for the period attributable to owners of the Company, ordinary shareholders for the six months ended 30 June 2022 were HK\$15,276 million, HK\$863 million and HK\$797 million, respectively and that for the corresponding period last year were HK\$15,180 million, HK\$2,000 million and HK\$1,936 million, respectively. The earnings per share for the period was HK18.46 cents as compared to HK44.54 cents for the corresponding period last year.

Profit for the six months ended 30 June 2022 decreased was mainly due to the latest wave of COVID-19 breaking out which continuously slowed down the global economic growth.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$446 million for the six months ended 30 June 2022 as compared to HK\$504 million for the corresponding period last year. It represented about 2.9% of the revenue for the six months ended 30 June 2022 and was decreased as compared to that of 3.3% for the corresponding period last year.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$598 million for the six months ended 30 June 2022 as compared to HK\$724 million for the corresponding period last year. It represented about 3.9% of the revenue for the six months ended 30 June 2022 and was decreased as compared to that of 4.8% for the corresponding period last year.

Finance Costs

The Group's total finance costs (including the interest on lease liabilities and amount capitalised) was HK\$94 million for the six months ended 30 June 2022 and is comparable to HK\$95 million for the corresponding period last year.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 55 days and 25 days, respectively, for the six months ended 30 June 2022 as compared to 59 days and 17 days, respectively, for the year ended 31 December 2021.

The Group's debtors' turnover days were 41 days for both six months ended 30 June 2022 and for the year ended 31 December 2021. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 22 days for the six months ended 30 June 2022 as compared to 26 days for the year ended 31 December 2021.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group (comprising of the Group's ordinary share capital, perpetual capital securities, reserves and non-controlling interests) as at 30 June 2022 was HK\$32,366 million (31 December 2021: HK\$33,403 million). As at 30 June 2022, the Group had current assets of HK\$14,729 million (31 December 2021: HK\$15,003 million) and current liabilities of HK\$12,716 million (31 December 2021: HK\$12,190 million). The current ratio was 1.16 as at 30 June 2022 as compared to 1.23 at 31 December 2021.

The Group generally finances its operations with internal generated cash flow and credit facilities provided by its principal bankers in Hong Kong, Macau and the PRC. As at 30 June 2022, the Group had outstanding bank borrowings of HK\$15,532 million (31 December 2021: HK\$14,061 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2022, the Group maintained bank balances and cash of HK\$1,832 million (31 December 2021: HK\$1,909 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.36 as at 31 December 2021 to 0.42 as at 30 June 2022 as the result of the expansion of the Group.

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 six months ended 30 June 2022. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

EMPLOYEES

As at 30 June 2022, the Group had a workforce of more than 10,000 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 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.065 (2021: HK\$0.15) per share for the six months ended 30 June 2022 to shareholders whose names appear on the Register of Members on 26 August 2022. It is expected that the interim dividend will be paid around 6 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 23 August 2022 to 26 August 2022, 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 54 Hopewell Centre, 183 Queen's Road East, Hong Kong (and with effect from 15 August 2022 onwards, at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong) for registration no later than 4:30 pm on 22 August 2022.

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

During the six months ended 30 June 2022, the Company repurchased a total of 15,116,000 shares of HK\$0.025 per share through the Stock Exchange at an aggregate consideration of approximately HK\$76,194,000 (including transaction costs). All of the shares repurchased were cancelled during the period. Details of shares repurchased during the period are set out as follows:

Month of repurchases	No. of ordinary shares of HK\$0.025	Price paid per share		Aggregate consideration paid (including expense) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2022	11,659,000	5.50	5.34	63,402
March 2022	373,000	4.07	4.07	1,565
April 2022	1,162,000	3.74	3.71	4,340
May 2022	1,922,000	3.64	3.50	6,887
	<u>15,116,000</u>			<u>76,194</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 2022.

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 2022. 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 2022.

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 2022.

On behalf of the Board
Lee Man Chun Raymond
Chairman

Hong Kong, 8 August 2022

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun, Mr. Li King Wai Ross, Mr. Lee Jude Ho Chung and Mr. Yip Heong Kan, 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.