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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 2023**

FINANCIAL HIGHLIGHTS

- Revenue decreased by 20.1% to HK\$12.2 billion as compared to the last corresponding period.
- Profit for the period decreased by 58.2% to HK\$361 million as compared to the last corresponding period.
- Earnings per share was HK7.15 cents.
- Declared interim dividend of HK2.5 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 2023 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 2023

	<i>Notes</i>	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Revenue	3	12,207,102	15,276,210
Cost of sales		<u>(11,227,458)</u>	<u>(13,619,852)</u>
Gross profit		979,644	1,656,358
Other income	4	405,054	374,522
Impairment losses on trade receivables, net of reversal		733	3,955
Other gains and losses, net	5	(1,593)	(2,309)
Distribution and selling expenses		(302,250)	(446,181)
General and administrative expenses		(542,498)	(598,371)
Share of result of an associate		(519)	–
Share of result of a joint venture		38	–
Finance costs	6	<u>(100,475)</u>	<u>(38,243)</u>
Profit before tax		438,134	949,731
Income tax expense	7	<u>(77,518)</u>	<u>(87,136)</u>
Profit for the period	8	360,616	862,595
Other comprehensive income/(expense) <i>Item that may be reclassified subsequently to to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>487,367</u>	<u>(1,283,885)</u>
Total comprehensive income/(expense) for the period		<u>847,983</u>	<u>(421,290)</u>
Profit for the period attributable to:			
Owners of the Company:			
– Ordinary shareholders		307,930	797,448
– Perpetual capital securities holders		51,967	64,773
Non-controlling interests		<u>719</u>	<u>374</u>
		<u>360,616</u>	<u>862,595</u>

		2023	2022
		(unaudited)	(unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total comprehensive income/(expense) attributable to:			
Owners of the Company:			
– Ordinary shareholders		795,447	(486,201)
– Perpetual capital securities holders		51,967	64,773
Non-controlling interests		569	138
		<u>847,983</u>	<u>(421,290)</u>
Dividends:	<i>9</i>		
– Dividend paid		<u>142,216</u>	<u>474,927</u>
– Interim dividend declared		<u>107,739</u>	<u>280,575</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	<i>10</i>	<u>7.15</u>	<u>18.46</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		30 June 2023 (unaudited) <i>HK\$'000</i>	31 December 2022 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	37,527,456	35,130,428
Right-of-use assets		1,021,469	998,273
Investment properties		515,680	518,644
Deposits paid for acquisition of property, plant and equipment		670,424	538,333
Interest in an associate		90,862	74,550
Interest in a joint venture		82,412	81,173
Loan to a joint venture		65,307	63,397
		39,973,610	37,404,798
CURRENT ASSETS			
Inventories	12	4,887,565	4,990,108
Trade and other receivables and prepayments	13	6,023,754	6,040,325
Amounts due from related companies		36,434	92,137
Bank balances and cash		2,230,514	1,798,317
		13,178,267	12,920,887
CURRENT LIABILITIES			
Trade and other payables	14	4,263,667	3,643,934
Amounts due to related companies		12,496	11,772
Tax payable		30,895	59,149
Lease liabilities		17,623	16,575
Contract liabilities		63,903	60,673
Advances drawn on bills discounted with recourse		69,733	–
Bank borrowings		7,988,586	8,500,876
		12,446,903	12,292,979
NET CURRENT ASSETS		731,364	627,908
TOTAL ASSETS LESS CURRENT LIABILITIES		40,704,974	38,032,706

		30 June 2023	31 December 2022
		(unaudited)	(audited)
	<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Bank borrowings		9,800,460	7,826,554
Lease liabilities		67,390	65,710
Deferred tax liabilities		1,580,148	1,533,548
		<u>11,447,998</u>	<u>9,425,812</u>
		<u>29,256,976</u>	<u>28,606,894</u>
CAPITAL AND RESERVES			
Share capital		107,739	107,739
Reserves		27,287,539	26,634,104
		<u>27,395,278</u>	<u>26,741,843</u>
Perpetual capital securities	<i>15</i>	1,852,742	1,856,664
		<u>29,248,020</u>	<u>28,598,507</u>
Non-controlling interests		8,956	8,387
		<u>29,256,976</u>	<u>28,606,894</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 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	<i>Insurance Contracts</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>

Except as described below, the application of the new and 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 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

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

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the Group’s consolidated financial statements for the year ending 31 December 2023.

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

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

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

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group’s accounting policies in the Group’s annual consolidated financial statements for the year ending 31 December 2023.

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 2023

	Packaging paper HK\$'000	Tissue paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	9,762,503	2,304,687	139,912	12,207,102	–	12,207,102
Inter-segment sales	–	–	588,886	588,886	(588,886)	–
	<u>9,762,503</u>	<u>2,304,687</u>	<u>728,798</u>	<u>12,795,988</u>	<u>(588,886)</u>	<u>12,207,102</u>
SEGMENT PROFIT	<u>297,779</u>	<u>217,377</u>	<u>11,950</u>	<u>527,106</u>	<u>–</u>	<u>527,106</u>
Net gain from fair value changes of derivative financial instruments						88
Unallocated income						33,319
Unallocated expenses						(21,423)
Share of result of an associate						(519)
Share of result of a joint venture						38
Finance costs						(100,475)
Profit before tax						<u>438,134</u>

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>

4. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Value added tax and other tax refund	142,666	182,660
Income from supply of steam and electricity, net	13,636	24,229
Income from wharf cargo handling, net	16,359	15,636
Interest income from banks	8,829	12,872
Gain on disposal of right-of-use assets	–	14,378
Government subsidy income	135,824	65,056
Rental income	23,416	30,039
Write-back of trade and other payables	4,077	–
Others	60,247	29,652
	<u>405,054</u>	<u>374,522</u>

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Loss on disposal of property, plant and equipment, net	(2,755)	(10,530)
Net foreign exchange differences	1,074	8,506
Net gain/(loss) from fair value changes of derivative financial instruments	88	(285)
	<u>(1,593)</u>	<u>(2,309)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interest on bank borrowings and advances drawn on bills discounted with recourse	356,133	92,815
Interest expense on lease liabilities	1,955	1,415
Less: amounts capitalised to property, plant and equipment	(257,613)	(55,987)
	<u>100,475</u>	<u>38,243</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	16,373	39,323
– PRC withholding tax on dividend distribution	7,021	–
– Other jurisdictions	9,766	14,720
	33,160	54,043
(Over)/under provision in previous years		
– The PRC EIT	(3,297)	(19,088)
– Other jurisdictions	1,055	(3,787)
Deferred tax		
– Charge to profit or loss	46,600	55,968
	77,518	87,136

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 eight (2022: six) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ending 31 December 2023.

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	
	2023	2022
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging/(crediting):		
Directors' emoluments	25,584	26,018
Staff salaries and other benefits, excluding those of directors	702,582	758,030
Contributions to retirement benefit schemes, excluding those of directors	67,608	72,965
	<u>795,774</u>	<u>857,013</u>
Total employee benefit expense	795,774	857,013
Capitalised in inventories	(567,066)	(616,501)
	<u>228,708</u>	<u>240,512</u>
Cost of inventories recognised as expense	11,227,458	13,619,852
Depreciation of property, plant and equipment	613,921	748,553
Depreciation of investment properties	11,686	12,594
Depreciation of right-of-use assets	26,804	20,481
	<u>652,411</u>	<u>781,628</u>
Total depreciation	652,411	781,628
Capitalised in inventories	(560,931)	(652,037)
	<u>91,480</u>	<u>129,591</u>
Gross rental income from investment properties	(14,424)	(17,680)
Less:		
– direct operation expenses incurred for investment properties that generated rental income during the period	278	122
	<u>278</u>	<u>122</u>
	<u>(14,146)</u>	<u>(17,558)</u>

9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

A final dividend of HK\$0.033 per share was paid in respect of the year ended 31 December 2022 (2022: a final dividend of HK\$0.11 per share was paid for the year ended 31 December 2021) to shareholders during the current period.

The directors determined that an interim dividend of HK\$0.025 (2022: HK\$0.065) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 18 August 2023.

In addition, the Company has made a distribution on perpetual capital securities of HK\$51,967,000 (2022: HK\$64,773,000) to the securities holders during the six months ended 30 June 2023.

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\$307,930,000 (2022: HK\$797,448,000), ordinary shareholders for the period, and weighted average number of 4,309,565,000 (2022: 4,319,785,326) 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\$2,749 million (2022: HK\$2,629 million) to property, plant and equipment to expand its operations.

12. INVENTORIES

	30 June 2023	31 December 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	3,023,791	2,969,872
Finished goods	1,863,774	2,020,236
	<u>4,887,565</u>	<u>4,990,108</u>

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Trade receivables	2,810,382	3,077,659
Less: allowance for credit losses	(19,099)	(19,099)
	2,791,283	3,058,560
Trade receivables backed by bills	398,180	612,028
Trade receivables backed by bills discounted with recourse	69,733	–
	3,259,196	3,670,588
Prepayments and deposits for purchase of raw materials	753,401	666,210
Other deposits and prepayments	518,014	527,046
Value-added tax receivables	759,690	495,469
Other receivables	733,453	681,012
	6,023,754	6,040,325

The Group allows its customers an average credit period of 45 to 90 days (2022: 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 2023 HK\$'000	31 December 2022 HK\$'000
Aged:		
Not exceeding 30 days	1,784,292	2,140,193
31–60 days	670,361	625,997
61–90 days	119,069	89,124
91–120 days	52,729	46,249
Over 120 days	164,832	156,997
	2,791,283	3,058,560

14. TRADE AND OTHER PAYABLES

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Trade payables	2,291,373	2,585,210
Construction fee payable	1,241,612	281,048
Accruals	462,338	544,858
Other payables	268,344	232,818
	<u>4,263,667</u>	<u>3,643,934</u>

The average credit period taken for trade purchases ranges from 30 to 180 days (2022: 30 to 180 days). The following is an aged analysis of the above trade payables presented based on the invoice date at the end of the reporting period.

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Aged:		
Not exceeding 30 days	890,580	1,114,570
31–60 days	482,191	546,457
61–90 days	250,044	398,785
91–120 days	194,238	437,258
Over 120 days	474,320	88,140
	<u>2,291,373</u>	<u>2,585,210</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued US\$300 million 5.50% senior perpetual capital securities (the “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. The 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.

On 6 December 2022, the Issuer has offered to all holders of the Securities to purchase for cash up to US\$130,000,000 in principal amount at the fixed purchase price of US\$860 per US\$1,000 principal amount (the “Tender Offer”). The Tender Offer expired on 16 December 2022 and US\$59,420,000 (approximately of HK\$466,150,000) in aggregate principal amount of the Securities were subsequently purchased and redeemed by the Issuer on 21 December 2022 and cancelled pursuant to the terms and conditions of the Securities. US\$240,580,000 (approximately of HK\$1,856,664,000) in aggregate principal amount of the Securities remain outstanding as at 31 December 2022.

On 9 June 2023, the aggregate principal amount of the Securities of US\$500,000 (approximately of HK\$3,922,000) was subsequently repurchased in the open market and redeemed by the Issuer and cancelled pursuant to the terms and conditions of the Securities. US\$240,080,000 (approximately of HK\$1,852,742,000) in aggregate principal amount of the Securities remain outstanding as at 30 June 2023.

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 2023, under the impact of Russo-Ukrainian war, high inflation and other factors, the prospect for global economic growth remained uncertain, along with sluggish consumer sentiment and weak growth of global trade. Decrease in demand for domestic sales and export of packaging paper has brought challenges to the paper manufacturers.

The Group's total revenue for the six months ended 30 June 2023 decreased by 20.1% to HK\$12.2 billion as compared with the same period last year. Net profit decreased by 58.2% to HK\$361 million. Earnings per share for the period were HK7.15 cents (2022: HK18.46 cents).

The board of directors has proposed an interim dividend of HK2.50 cents per share for 2023 (2022: HK6.50 cents). The aggregate sales of the Group for the six months ended 30 June 2023 amounted to 3.02 million tons, with net profit per ton at HK\$119.

INDUSTRY AND BUSINESS REVIEW

During the period under review, as the release of production capacity of foreign pulp mills accelerated, inventories continued to accumulate, which mitigated the shortage in supply of pulp and its prices have turned downward. However, market demand remained weak as a result of gloomy consumer sentiment, and the industry was still in a destocking cycle, which brought pressure on the Group's profitability. Although the oversea production bases set up by the management have proved their competitive edges and has expanded the Group's sources of revenue, our overall revenue was still affected by slow recovery of overall economic activities and the increasing interest costs caused by rising lending rates.

In response to the market changes, the Group actively consolidated its upstream resources to develop a vertical business model covering pulp-making and waste paper recycling, with a view to ensuring raw material supply and controlling its costs so as to improve profit. As at the end of June this year, the Group's additional pulp capacity in Chongqing commenced production.

In addition, the Group's fourth paper-making production line in Malaysia has commenced production during the period under review, with an annual production capacity of 350,000 tons. Upon its commencement of production, the total production capacity at our production base in Malaysia reached 1.4 million tons.

BUSINESS PROSPECTS

Packaging paper business remains the Group's core business. In response to the carbon emission reduction target, during the second half of last year, the State Council promulgated the Notice on Further Strengthening the Control of Excessive Packaging of Commodities (《關於進一步加強商品過度包裝治理的通知》) and the Circular of the General Office of the State Council on Printing and Issuing the Development Plan for Modern Logistics during the 14th Five-Year Plan Period (《國務院辦公廳關於印發「十四五」現代物流發展規劃的通知》), which promote the adoption of recyclable packaging and improve the supporting system. It is expected that in the future, the PRC government will continue to tighten control on plastic packaging, which may stimulate the use of paper packaging as a substitute, and the Group's packaging paper business will thus be benefited. In addition, as the second half of the year is a traditional peak season, demand for packaging paper is expected to pick up.

The Group also supports the “Belt and Road” initiative. Besides, with the decrease in logistics costs resulting from resumption of international logistics and transportation, as well as full operation of four paper manufacturing production line in Malaysia, the Group will boost its export sales to expand its presence in international markets, and leverage on local resources to optimize its operational efficiency. In the future, the Group will continue to explore business opportunities in countries and cities along the Belt and Road.

Regarding the tissue paper business, the Group has endeavored to improve the quality and production scale of consumer tissue paper. The Group produces natural bamboo unbleached tissue in order to satisfy consumers’ needs for health and environmental protection, realizing its corporate philosophy of being an environmental-friendly enterprise. As the economy in Mainland China is recovering, the market demand for quality tissue paper is also expected to grow steadily. Currently, the Group’s total annual production capacity of consumer tissue paper has reached approximately 1,000,000 tons. The management will adopt effective strategies based on market and customer demand to proactively develop its tissue paper business with great potential.

In recent years, the Group has devoted substantial resources to pulp business, which forms a part of the development of tissue paper business. On top of the existing pulp production lines in Chongqing, the new pulp production lines in Jiangxi and Guangxi provinces are expected to commence production in the second half of this year, which will facilitate the stable supply of raw materials for tissue paper, thereby achieving significant cost reduction and effective implementation of the vertical integration strategy. This will allow the Group to strengthen its control over the supply chain, continuously increase production capacity and enhance its overall profitability. Recently, the price of pulp was stabilized and recovered gradually. In addition to providing stable supply of raw materials for the Group, pulp business may contribute to additional revenue and profit through external sales. Hence, the management believes that tissue paper business and pulp business will bring development opportunities and major contributions to the Group.

The Group is committed to differentiating itself with quality products at reasonable price, while also fulfilling its corporate social responsibility by reducing pollution and carbon emissions through waste paper recycling and advanced production technologies, thereby bringing more environmentally friendly products to customers. In the long term, the paper manufacturing industry still has tremendous room for development. The Group will seize opportunities to expand its market, constantly optimize the supply chain, and at the same time develop its integrated industrial chain so as to diversify its paper manufacturing and pulp businesses, further enhance its operational stability and strengthen its profit base as well as maintaining its market 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 2023 were HK\$12,207 million, HK\$361 million and HK\$308 million, respectively and that for the corresponding period last year were HK\$15,276 million, HK\$863 million and HK\$797 million, respectively. The earnings per share for the period was HK7.15 cents as compared to HK18.46 cents for the corresponding period last year.

Profit for the six months ended 30 June 2023 decreased was mainly due to the impact of Russo-Ukrainian war, high inflation and rising lending rates which continuously slowed down the global economic growth.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$302 million for the six months ended 30 June 2023 as compared to HK\$446 million for the corresponding period last year. It represented about 2.5% of the revenue for the six months ended 30 June 2023 and was decreased as compared to that of 2.9% for the corresponding period last year.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$542 million for the six months ended 30 June 2023 as compared to HK\$598 million for the corresponding period last year. It represented about 4.4% of the revenue for the six months ended 30 June 2023 and was increased as compared to that of 3.9% 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\$358 million for the six months ended 30 June 2023 as compared to HK\$94 million for the corresponding period last year. The increase was mainly due to the increase in both borrowing amounts and average interest rate on bank borrowings during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 59 days and 22 days, respectively, for the six months ended 30 June 2023 as compared to 47 days and 24 days, respectively, for the year ended 31 December 2022.

The Group's debtors' turnover day was 41 days for six months ended 30 June 2023 as compared to 38 days for the year ended 31 December 2022. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 45 days for the six months ended 30 June 2023 as compared to 41 days for the year ended 31 December 2022.

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 2023 was HK\$29,257 million (31 December 2022: HK\$28,607 million). As at 30 June 2023, the Group had current assets of HK\$13,178 million (31 December 2022: HK\$12,921 million) and current liabilities of HK\$12,447 million (31 December 2022: HK\$12,293 million). The current ratio was 1.06 as at 30 June 2023 as compared to 1.05 at 31 December 2022.

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 2023, the Group had outstanding bank borrowings of HK\$17,789 million (31 December 2022: HK\$16,327 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2023, the Group maintained bank balances and cash of HK\$2,231 million (31 December 2022: HK\$1,798 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.51 as at 31 December 2022 to 0.53 as at 30 June 2023 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 2023. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

EMPLOYEES

As at 30 June 2023, 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\$0.025 (2022: HK\$0.065) per share for the six months ended 30 June 2023 to shareholders whose names appear on the Register of Members on 18 August 2023. It is expected that the interim dividend will be paid around 5 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 15 August 2023 to 18 August 2023, 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 pm on 14 August 2023.

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

Save as disclosed in note 15 to the unaudited condensed consolidated results, during the six months ended 30 June 2023, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

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 2023. 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 2023.

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 2023.

On behalf of the Board
Lee Man Chun Raymond
Chairman

Hong Kong, 1 August 2023

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 and three independent non-executive directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David.