理 文 造 紙 有 限 公 司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year of HK$32,208 million (2017: HK$25,837 million);
- Net profit for the year of HK$4,880 million (2017: HK$5,040 million);
- Net profit per ton about HK$797 for the year;
- Stable payout ratio of about 32%, with proposed final dividend of HK15 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 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**32,208,082**	25,836,884
Cost of sales		**(24,699,596)**	(18,324,030)
Gross profit		**7,508,486**	7,512,854
Other income	*4*	**1,015,109**	791,671
Other gains and losses	*5*	**90,039**	(72,581)
Impairment losses on trade receivables, net of reversal		**(67,938)**	3,160
Distribution and selling expenses		**(580,571)**	(435,004)
General and administrative expenses		**(1,518,181)**	(1,291,614)
Finance costs	*6*	**(319,612)**	(185,311)
Profit before tax		**6,127,332**	6,323,175
Income tax expense	*7*	**(1,247,112)**	(1,282,883)
Profit for the year	*8*	**4,880,220**	5,040,292
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(910,719)**	1,551,737
Total comprehensive income for the year		**3,969,501**	6,592,029

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Profit for the year attributable to:			
Owners of the Company		**4,880,206**	5,040,292
Non-controlling interest		**14**	–
		4,880,220	5,040,292
Total comprehensive income attributable to:			
Owners of the Company		**3,969,410**	6,592,029
Non-controlling interest		**91**	–
		3,969,501	6,592,029
		HK cents	*HK cents*
Earnings per share	*10*	**109.92**	111.47

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**27,443,999**	27,458,855
Prepaid lease payments		**937,107**	936,881
Investment properties		**592,003**	581,602
Deposits paid for acquisition of property, plant and equipment and land use rights		**425,313**	152,178
Interest in a joint venture		**–**	–
Loan to a joint venture		**98,343**	97,453
		29,496,765	29,226,969
CURRENT ASSETS			
Inventories		**4,886,346**	4,954,319
Prepaid lease payments		**21,647**	21,310
Loan to a joint venture		**55,792**	36,890
Trade and other receivables	*11*	**5,956,979**	6,775,828
Bills receivables discounted with recourse		**338,354**	–
Amounts due from related companies		**9,003**	21,709
Derivative financial instruments		**–**	4,127
Bank balances and cash		**2,011,942**	2,248,641
		13,280,063	14,062,824
CURRENT LIABILITIES			
Trade and other payables	*12*	**3,670,936**	4,672,298
Advances drawn on bills receivables discounted with recourse		**338,354**	–
Amount due to related companies		**11,678**	14,742
Derivative financial instruments		**3,543**	–
Tax payable		**275,494**	326,923
Contract liabilities		**96,107**	–
Bank borrowings		**5,825,466**	6,025,745
		10,221,578	11,039,708
NET CURRENT ASSETS		**3,058,485**	3,023,116
TOTAL ASSETS LESS CURRENT LIABILITIES		**32,555,250**	32,250,085

	2018	2017
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Bank borrowings	**7,965,029**	9,051,959
Deferred tax liabilities	**1,444,370**	1,282,008
	9,409,399	10,333,967
	23,145,851	21,916,118
CAPITAL AND RESERVES		
Share capital	**109,723**	112,635
Reserves	**23,033,372**	21,803,483
Equity attributable to owners of the Company	**23,143,095**	21,916,118
Non-controlling interests	**2,756**	–
	23,145,851	21,916,118

NOTES:

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 –2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

(i) HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of packaging paper
- Sales of pulp
- Sales of tissue paper

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 will be disclosed in the consolidated financial statements of the Group.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 *HK$'000*	Reclassification *HK$'000*	**Carrying amounts under HKFRS 15 at 1 January 2018** ***HK$'000***
Current liabilities			
Trade and other payables	4,672,298	(127,566)	**4,544,732**
Contract liabilities	–	127,566	**127,566**
	4,672,298	–	**4,672,298**

As at 1 January 2018, receipt in advance from customers of HK$127,566,000 in respect of contracts relating to sales of packaging paper, pulp and tissue paper previously included in trade and other payables were reclassified to contract liabilities.

(ii) HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 will be disclosed in the consolidated financial statements of the Group.

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on internal credit rating. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including loan to a joint venture, other receivables, bank balances and cash and amounts due from related companies, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the amount involved is insignificant.

(iii) HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Group is required to determine the date of transaction for each payment or receipt of advance consideration.

On initial application, the Group applied the interpretation prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the current year, i.e. 1 January 2018.

For foreign currency denominated advance considerations paid by the Group in relation to purchases of inventories amounting to HK$27,902,000, the Group recorded these advances by applying the spot exchange rate on initial recognition between the functional currency of the relevant group entity and the foreign currency. Accordingly, the application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these consolidated financial statements.

(iv) Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 –2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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

(i) HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$26,566,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$3,897,000 and refundable rental deposits received of HK$10,043,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

(ii) Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies HKFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

Loan to a joint venture is considered as long-term interests that, in substance form part of the Group's net investments in the relevant joint venture. However, the application is not expected to have impact as the Group's existing accounting policies are consistent with the requirements clarified by the amendments.

(iii) Amendments to HKFRSs Annual Improvements to HKFRSs 2015–2017 Cycle

The annual improvement packages amended the following four standards.

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

HKAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

HKFRS 3 Business Combinations

The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

HKFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.

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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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:

Year ended 31 December 2018

	Packaging paper *HK$'000*	**Pulp** *HK$'000*	**Tissue Paper** *HK$'000*	**Segment Total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE						
External sales	**27, 156,142**	**3,959**	**5,047,981**	**32,208,082**	**–**	**32,208,082**
Inter-segment sales	**–**	**1,189,078**	**–**	**1,189,078**	**(1,189,078)**	**–**
	27,156,142	**1,193,037**	**5,047,981**	**33,397,160**	**(1,189,078)**	**32,208,082**
SEGMENT PROFIT	**5,455,810**	**898**	**840,108**	**6,296,816**	**–**	**6,296,816**
Net gain from fair value changes of derivative financial instruments						**2,638**
Unallocated income						**250,802**
Unallocated expenses						**(103,312)**
Finance costs						**(319,612)**
Profit before tax						**6,127,332**

Year ended 31 December 2017

	Packaging paper *HK$'000*	Pulp *HK$'000*	Tissue Paper *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE						
External sales	23,102,581	15,593	2,718,710	25,836,884	–	25,836,884
Inter-segment sales	–	915,936	516	916,452	(916,452)	–
	23,102,581	931,529	2,719,226	26,753,336	(916,452)	25,836,884
SEGMENT PROFIT	6,039,601	3,126	515,002	6,557,729	–	6,557,729
Net gain from fair value changes of derivative financial instruments						9,960
Unallocated income						84,071
Unallocated expenses						(143,274)
Finance costs						(185,311)
Profit before tax						6,323,175

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 exchange gain (loss), 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 2018

	Packaging paper *HK$'000*	**Pulp** *HK$'000*	**Tissue Paper** *HK$'000*	**Consolidated** *HK$'000*
Segment assets	**31,024,497**	**2,031,539**	**7,708,849**	**40,764,885**
Unallocated assets				**2,011,943**
Consolidated total assets				**42,776,828**
Segment liabilities	**1,654,893**	**18,316**	**84,353**	**1,757,562**
Unallocated liabilities				**17,873,415**
Consolidated total liabilities				**19,630,977**

As at 31 December 2017

	Packaging paper *HK$'000*	Pulp *HK$'000*	Tissue Paper *HK$'000*	Consolidated *HK$'000*
Segment assets	32,086,459	1,892,725	6,295,886	40,275,070
Unallocated assets				3,014,723
Consolidated total assets				43,289,793
Segment liabilities	2,834,924	20,369	288,451	3,143,744
Unallocated liabilities				18,229,931
Consolidated total liabilities				21,373,675

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to operating segments other than investment properties, derivative financial instruments, 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:

	2018 *HK$'000*	2017 *HK$'000*
Packaging paper (including linerboard and corrugating medium)	**27,156,142**	23,102,581
Pulp	**3,959**	15,593
Tissue paper	**5,047,981**	2,718,710
	32,208,082	25,836,884

Geographical information

Over 96% (2017: 92%) 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	
	2018 *HK$'000*	2017 *HK$'000*
The PRC other than Hong Kong	**27,132,105**	27,080,950
Socialist Republic of Vietnam ("Vietnam")	**2,349,426**	2,128,625
Hong Kong	**15,234**	17,394
	29,496,765	29,226,969

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

	2018 *HK$'000*	2017 *HK$'000*
Value added tax and other tax refund	**632,990**	479,460
Income from supply of steam and electricity	**30,678**	53,721
Income from wharf cargo handling	**19,446**	54,100
Sales of materials and waste paper	**65,130**	43,518
Interest income from banks	**20,584**	11,957
Others	**246,281**	148,915
	1,015,109	791,671

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net foreign exchange gain (loss)	**98,178**	(75,459)
Net gain from fair value changes of derivative financial instruments	**2,638**	9,960
Loss on disposal of property, plant and equipment	**(10,777)**	(7,082)
	90,039	(72,581)

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank borrowings	**389,125**	297,578
Less: amounts capitalised to property, plant and equipment	**(69,513)**	(112,267)
	319,612	185,311

Borrowing costs capitalised during the year arose from the general borrowings and are calculated by applying a capitalisation rate ranging from 2.43% to 3.10% (2017: from 2.34% to 2.94%) per annum to expenditures on qualifying assets.

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax ("EIT")	**884,183**	913,361
– PRC withholding tax on dividend distribution	**153,820**	–
Under (over) provision in previous year		
– The PRC EIT	**732**	(910)
Deferred tax		
– Charge to profit or loss	**208,377**	370,432
Total income tax recognised in profit or loss	**1,247,112**	1,282,883

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 five (2017: five) of these subsidiaries are entitled to preferential rate of 15% for the Group's financial year ended 31 December 2018.

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No assessable profit was noted 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.

Others

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

8. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**38,050**	37,894
Staff salaries and other benefits, excluding those of directors	**1,183,240**	1,158,979
Contributions to retirement benefit schemes, excluding those of directors	**82,120**	58,545
Total employee benefit expense	**1,303,410**	1,255,418
Capitalised in inventories	**(915,230)**	(722,162)
	388,180	533,256
Auditor's remuneration		
– Audit services	**7,866**	7,826
– Non-audit services	**1,082**	863
Cost of inventories recognised as expense	**24,699,596**	18,324,030
Amortisation of prepaid lease payments	**21,692**	19,104
Depreciation of property, plant and equipment	**1,267,003**	1,095,904
Depreciation of investment properties	**22,314**	13,467
Total depreciation and amortisation	**1,311,009**	1,128,475
Capitalised in inventories	**(1,172,264)**	(1,003,011)
	138,745	125,464
Operating lease rentals in respect of land and buildings	**35,076**	14,763
Gross rental income from investment properties	**(28,097)**	(21,828)
Less:		
– direct operating expenses incurred for investment properties that generated rental income during the year	**246**	211
– direct operating expenses incurred for investment properties that did not generate rental income during the year	**174**	454
	(27,677)	(21,163)

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution:		
Final dividend of HK$0.20 in respect of the year ended 31 December 2017 (2017: final dividend of HK$0.11 in respect of the year ended 31 December 2016) per share	**892,153**	496,830
Interim dividend of HK$0.20 in respect of the year ended 31 December 2018 (2017: interim dividend of HK$0.17 in respect of the year ended 31 December 2017) per share	**883,951**	767,829
	1,776,104	1,264,659

A final dividend of HK$0.15 per share in respect of the year ended 31 December 2018 (2017: final dividend of HK$0.20 per share in respect of the year ended 31 December 2017) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year of HK$4,880,206,000 (2017: HK$5,040,292,000) and weighted average number of 4,439,977,907 (2017: 4,521,700,282) 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. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivables of HK$4,152,673,000 (2017: HK$4,656,150,000).

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.

	2018	2017
	HK$'000	*HK$'000*
Aged:		
Not exceeding 30 days	**3,355,730**	3,821,859
31–60 days	**683,939**	645,979
61–90 days	**74,183**	125,958
91–120 days	**21,103**	31,758
Over 120 days	**17,718**	30,596
	4,152,673	4,656,150

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK$1,935,034,000 (2017: HK$3,129,001,000).

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.

	2018	2017
	HK$'000	*HK$'000*
Aged:		
Not exceeding 30 days	**776,731**	1,227,564
31–60 days	**448,024**	642,141
61–90 days	**396,863**	537,183
91–120 days	**287,573**	690,208
Over 120 days	**25,843**	31,905
	1,935,034	3,129,001

FINAL DIVIDEND

The Directors have proposed a final dividend of HK15 cents (2017: HK20 cents) per share for the year ended 31 December 2018 to shareholders whose names appear on the Register of Members on 16 May 2019. 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 28 May 2019.

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 6 May 2019. For ascertaining shareholders' right to attend and vote at the AGM, the register of members of the Company will be closed from 30 April 2019 to 6 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 29 April 2019.

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 HK15 cents per share in cash for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on 16 May 2019 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 10 May 2019 to 16 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 9 May 2019.

BUSINESS REVIEW AND OUTLOOK

The year 2018 saw sustained improvement in the internal environment of China's paper manufacturing industry. Driven by the supply-side reform, the paper making industry made significant progress in eliminating obsolete production capacity, which resulted in a more balanced supply and demand situation. In the meantime, with the increasingly stringent requirement on all environmental protection and energy conservation and emission reduction indicators as well as the tougher enforcement actions, paper manufacturing enterprises which discharged a large amount of pollutants were shut down one-by-one, leading to a more concentrated market, with leading enterprises occupying greater market shares and gaining stronger bargaining power. The overall environment proved beneficial to the development of Lee & Man Paper.

In the latter half of 2018, the slackened demand for downstream end paper products dragged down the profit margin of the entire industry. To ensure the supply of raw materials, the Group has been committed to developing a vertical business model covering pulp manufacture and recycling of waste paper through active consolidation of its upstream resources. In the meantime, by expanding scale, controlling costs and strengthening production capacity, the Company's principal business achieved a healthy and stable growth. Expanding scale of development and seizing opportunities remain the key objectives of Lee & Man Paper for the coming years. The Group will make a proactive effort to optimise the industrial chain and diversify the pulp business, while at the same time giving active support to the "Belt & Road" strategic initiative and targeting Southeast Asia for international development riding on the existing production scale.

Lee & Man Paper has endeavoured to improve the quality of consumer tissue and boost its scale of production. To accommodate the needs of markets and customers, the new tissue production lines at the Jiangxi plant of Lee & Man Paper will commence operation this year. As such, the production volume of tissue in 2019 can be enhanced. The tissue business has become the new growth driver of the Group.

The packaging paper business of the Company is also maintaining steady development, with the annual production volume reaching 6.03 million tons in aggregate. Still, changes in China's waste paper policy and the global waste paper market have had some bearing on the waste paper recycling of the Group. Therefore, the Group will actively seek alternative methods for the import of waste paper.

From the general economic development pattern, there is further room for growth in paper consumption of the Chinese market and the Group remains confident in the future of the paper manufacturing industry. Moving forward, Lee & Man Paper will seize opportunities to expand its market coverage, reinforce the competitiveness of its products and cement the Group's leading position in the industry.

In the future, while enhancing overall economies of scale, the Group will stay focused on developing paper manufacturing techniques that are more environmentally-friendly and energy efficient, with a view to identifying a win-win path of sustainable development as it aims to strike a balance between corporate growth and environmental protection.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company for the year ended 31 December 2018 was HK$32.21 billion and HK$4.88 billion respectively, while its net profit per tonne was HK$797.

The earnings per share for the year was HK109.92 cents when compared with HK111.47 cents for the year ended 31 December 2017.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK$581 million for the year ended 31 December 2018 as compared to HK$435 million for the year ended 31 December 2017. It represented about 1.8% of the revenue for the year ended 31 December 2018 and was comparable to about 1.7% for the year ended 31 December 2017.

General and Administrative Expenses

The Group's general and administrative expenses was HK$1,518 million for the year ended 31 December 2018 as compared to HK$1,292 million for the year ended 31 December 2017. It represented about 4.7% of the revenue for the year ended 31 December 2018 and was decreased as compared to that of 5.0% for the year ended 31 December 2017.

Finance Costs

The Group's total finance costs (including the amounts capitalised) was HK$389 million for the year ended 31 December 2018 as compared to HK$298 million for the year ended 31 December 2017. The increase was mainly due to the increase in 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 61 days and 16 days, respectively, for the year ended 31 December 2018 as compared to 78 days and 18 days, respectively, for the year ended 31 December 2017.

The Group's debtors' turnover days were 35 days for the year ended 31 December 2018 as compared to 44 days for the year ended 31 December 2017. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 33 days for the year ended 31 December 2018 as compared to 68 days for the year ended 31 December 2017. The Group settled much of the creditors' balances and less purchase near year end, and also more local suppliers with shorter tenor were used during the year.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 31 December 2018 was HK$23,146 million (2017: HK$21,916 million). As at 31 December 2018, the Group had current assets of HK$13,280 million (2017: HK$14,063 million) and current liabilities of HK$10,222 million (2017: HK$11,040 million). The current ratio was 1.30 as at 31 December 2018 as compared to 1.27 at 31 December 2017.

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 2018, the Group had outstanding bank borrowings of HK$13,790 million (2017: HK$15,078 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 31 December 2018, the Group maintained bank balances and cash of HK$2,012 million (2017: HK$2,249 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.59 as at 31 December 2017 to 0.52 as at 31 December 2018 as less capital expenditure was incurred during the year.

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars, Renminbi, United States dollars or Euro. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2018. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

Employees

As at 31 December 2018, the Group had a workforce of more than 7,800 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 119,134,000 shares of HK$0.025 per share through The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK$966,329,000 (including transaction costs). Out of 119,134,000 ordinary shares repurchased, 116,496,000 shares were cancelled during the year ended 31 December 2018 while the remaining 2,638,000 ordinary shares were cancelled in January 2019. Details of shares repurchased during the year are set out as follows:

Month	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate consideration paid (including expenses)**
		HK$	*HK$*	*HK$'000*
January	5,404,000	9.21	8.96	49,149
March	39,236,000	9.00	8.21	344,724
June	32,764,000	8.90	7.83	273,321
August	16,209,000	8.18	7.02	124,020
September	4,163,000	7.19	7.07	29,901
October	14,059,000	7.14	6.61	97,716
December	7,299,000	6.57	6.34	47,498
Total	119,134,000			966,329

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 2018, 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 2018. 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 2018 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 6 May 2019. 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, 11 March 2019

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.