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理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

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

(Stock Code: 2314)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

- Revenue for the year of HK\$27,144 million (2018: HK\$32,208 million);
- Net profit for the year of HK\$3,300 million (2018: HK\$4,880 million);
- Net profit per ton about HK\$525 for the year;
- Stable payout ratio of about 34%, with proposed final dividend of HK13 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 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	27,144,210	32,208,082
Cost of sales		(22,051,176)	(24,699,596)
Gross profit		5,093,034	7,508,486
Other income	4	889,955	1,015,109
Impairment losses on trade receivables, net of reversal		(54,548)	(67,938)
Other gains and losses	5	191,688	90,039
Distribution and selling expenses		(612,268)	(580,571)
General and administrative expenses		(1,162,805)	(1,518,181)
Finance costs	6	(324,861)	(319,612)
Profit before tax		4,020,195	6,127,332
Income tax expense	7	(719,930)	(1,247,112)
Profit for the year	8	3,300,265	4,880,220
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(1,298,980)	(910,719)
Total comprehensive income for the year		2,001,285	3,969,501

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit (loss) for the year attributable to:			
Owners of the Company		3,235,605	4,880,206
Perpetual capital securities holders		64,721	–
Non-controlling interest		(61)	14
		<u>3,300,265</u>	<u>4,880,220</u>
Total comprehensive income (expenses) attributable to:			
Owners of the Company		1,936,602	3,969,410
Perpetual capital securities holders		64,721	–
Non-controlling interest		(38)	91
		<u>2,001,285</u>	<u>3,969,501</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	<i>10</i>	<u>73.95</u>	<u>109.92</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	28,176,728	27,443,999
Right-of use-assets	<i>11</i>	1,040,495	–
Prepaid lease payments		–	937,107
Investment properties		584,336	592,003
Deposits paid for acquisition of property, plant and equipment and land use rights		1,106,741	425,313
Interest in a joint venture		–	–
Loan to a joint venture		98,343	98,343
		<hr/> 31,006,643	<hr/> 29,496,765
CURRENT ASSETS			
Inventories	<i>12</i>	3,571,075	4,886,346
Prepaid lease payments		–	21,647
Loan to a joint venture		61,656	55,792
Trade and other receivables	<i>13</i>	5,355,998	5,956,979
Bills receivables discounted with recourse		461,824	338,354
Amounts due from related companies		120,749	9,003
Bank balances and cash		2,919,462	2,011,942
		<hr/> 12,490,764	<hr/> 13,280,063
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	2,832,628	3,670,936
Advances drawn on bills receivables discounted with recourse		461,824	338,354
Amount due to related companies		15,663	11,678
Derivative financial instruments		3	3,543
Tax payable		189,424	275,494
Lease liabilities		4,867	–
Contract liabilities		81,395	96,107
Bank borrowings		4,874,429	5,825,466
		<hr/> 8,460,233	<hr/> 10,221,578
NET CURRENT ASSETS		<hr/> 4,030,531	<hr/> 3,058,485
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 35,037,174	<hr/> 32,555,250

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
NON-CURRENT LIABILITIES			
Bank borrowings		7,461,118	7,965,029
Lease liabilities		48,525	–
Deferred tax liabilities		1,444,911	1,444,370
		<u>8,954,554</u>	<u>9,409,399</u>
		<u>26,082,620</u>	<u>23,145,851</u>
CAPITAL AND RESERVES			
Share capital		109,170	109,723
Reserves		23,650,317	23,033,372
Equity attributable to owners of the Company		23,759,487	23,143,095
Perpetual capital securities	<i>15</i>	2,322,814	–
Non-controlling interests		319	2,756
		<u>26,082,620</u>	<u>23,145,851</u>

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 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 –2017 Cycle

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 these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) at transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People’s Republic of China (the “PRC”) was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.3%.

	1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	<u>26,566</u>
Lease liabilities discounted at relevant incremental borrowing rate	23,685
Less:	
Recognition exemption – short term leases	<u>(13,220)</u>
Lease liabilities as at 1 January 2019	<u>10,465</u>
Analysed as:	
Current	2,910
Non-current	<u>7,555</u>
	<u>10,465</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of use assets relating to operating leases recognised upon application of HKFRS16	10,465
Reclassified from prepaid lease payments (<i>note</i>)	<u>958,754</u>
	<u>969,219</u>
By class:	
Leasehold lands	958,754
Land and buildings	<u>10,465</u>
	<u>969,219</u>

note: Upfront payments for leasehold lands in the PRC and Socialist Republic of Vietnam (“Vietnam”) were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$21,647,000 and HK\$937,107,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The transition to HKFRS 16 has no material impact on the Group's retained profits as at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$'000</i>
Non-current Assets			
Prepaid lease payments	937,107	(937,107)	–
Right-of-use assets	–	969,219	969,219
Current Assets			
Prepaid lease payments	21,647	(21,647)	–
Current Liabilities			
Lease liabilities	–	2,910	2,910
Non-current Liabilities			
Lease liabilities	–	7,555	7,555

note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 9, HKAS 39 and HKFRS7	Interest Rate Benchmark Reform ⁴

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

² 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.

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

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenues and results

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

Year ended 31 December 2019

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

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)	–
	<u>27,156,142</u>	<u>1,193,037</u>	<u>5,047,981</u>	<u>33,397,160</u>	<u>(1,189,078)</u>	<u>32,208,082</u>
SEGMENT PROFIT	<u>5,455,810</u>	<u>898</u>	<u>840,108</u>	<u>6,296,816</u>	<u>–</u>	<u>6,296,816</u>
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						<u>6,127,332</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of net gain from fair value changes of derivative financial instruments, rental income, interest income, net exchange gain, 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 2019

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

As at 31 December 2018

	Packaging paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Tissue Paper <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	31,024,498	2,031,539	7,708,849	40,764,886
Unallocated assets				<u>2,011,942</u>
Consolidated total assets				<u>42,776,828</u>
Segment liabilities	1,654,893	18,316	84,353	1,757,562
Unallocated liabilities				<u>17,873,415</u>
Consolidated total liabilities				<u>19,630,977</u>

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

Revenue from major products

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Packaging paper (including linerboard and corrugating medium)	22,387,672	27,156,142
Pulp	1,693	3,959
Tissue paper	4,754,845	5,047,981
	<u>27,144,210</u>	<u>32,208,082</u>

Geographical information

Over 95% (2018: 96%) 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	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The PRC other than Hong Kong	26,067,151	27,132,105
Vietnam	2,465,140	2,349,426
Malaysia	2,343,481	–
Hong Kong	130,871	15,234
	<u>31,006,643</u>	<u>29,496,765</u>

Information about major customers

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

4. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Value added tax and other tax refund	434,513	632,990
Income from supply of steam and electricity	36,910	30,678
Income from wharf cargo handling	20,804	19,446
Sales of materials and waste paper	85,257	65,130
Interest income from banks	41,981	20,584
Others	270,490	246,281
	<u>889,955</u>	<u>1,015,109</u>

5. OTHER GAINS AND LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net foreign exchange gain	193,197	98,178
Net gain from fair value changes of derivative financial instruments	5,740	2,638
Loss on disposal of property, plant and equipment	(7,363)	(10,777)
Others	114	–
	<u>191,688</u>	<u>90,039</u>

6. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on bank borrowings	415,048	389,125
Interest on lease liabilities	3,174	–
Less: amounts capitalised to property, plant and equipment	(93,361)	(69,513)
	<u>324,861</u>	<u>319,612</u>

Borrowing costs capitalised during the year arose from the general borrowings and are calculated by applying a capitalisation rate ranging from 3.20% to 3.30% (2018: from 2.43% to 3.10%) per annum to expenditures on qualifying assets.

7. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	489,506	884,183
– PRC withholding tax on dividend distribution	218,700	153,820
– Others	567	–
	708,773	1,038,003
Under-provision in previous year		
– The PRC EIT	3,797	732
Deferred tax		
– Charge to profit or loss	7,360	208,377
Total income tax recognised in profit or loss	719,930	1,247,112

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 (2018: six) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ended 31 December 2019.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	38,345	38,050
Staff salaries and other benefits, excluding those of directors	1,105,753	1,183,240
Contributions to retirement benefit schemes, excluding those of directors	87,022	82,120
	<u>1,231,120</u>	<u>1,303,410</u>
Total employee benefit expense	1,231,120	1,303,410
Capitalised in inventories	(901,030)	(915,230)
	<u>330,090</u>	<u>388,180</u>
Auditor's remuneration		
– Audit services	8,519	7,866
– Non-audit services	1,186	1,082
Cost of inventories recognised as expense	22,051,176	24,699,596
Amortisation of prepaid lease payments	–	21,692
Depreciation of property, plant and equipment	1,293,075	1,267,003
Depreciation of investment properties	22,576	22,314
Depreciation of right-of-use assets	32,281	–
	<u>1,347,932</u>	<u>1,311,009</u>
Total depreciation and amortisation	1,347,932	1,311,009
Capitalised in inventories	(1,196,140)	(1,172,264)
	<u>151,792</u>	<u>138,745</u>
Operating lease rentals in respect of land and buildings	41,426	35,076
Gross rental income from investment properties	(24,196)	(28,097)
Less:		
– direct operating expenses incurred for investment properties that generated rental income during the year	419	246
– direct operating expenses incurred for investment properties that did not generate rental income during the year	350	174
	<u>(23,427)</u>	<u>(27,677)</u>

9. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends recognised as distribution:		
Final dividend of HK\$0.15 in respect of the year ended 31 December 2018 (2018: final dividend of HK\$0.20 in respect of the year ended 31 December 2017) per share	657,000	892,153
Interim dividend of HK\$0.13 in respect of the year ended 31 December 2019 (2018: interim dividend of HK\$0.20 in respect of the year ended 31 December 2018) per share	568,577	883,951
	<u>1,225,577</u>	<u>1,776,104</u>

A final dividend of HK\$0.13 per share in respect of the year ended 31 December 2019 (2018: final dividend of HK\$0.15 per share in respect of the year ended 31 December 2018) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

In addition, the Company has made a distribution on perpetual capital securities of HK\$64,721,000 (2018: nil) during the year ended 31 December 2019.

10. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year of HK\$3,235,605,000 (2018: HK\$4,880,206,000) and weighted average number of 4,375,449,449 (2018: 4,439,977,907) shares in issue during the year.

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

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

During the year, there were additions of HK\$2,863 million (2018: HK\$1,978 million) to property, plant and equipment to expand its operations.

During the year, the Group entered into new lease agreements for use of warehouses for 1 year to 19 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognises HK\$108,095,000 of right-of-use assets and HK\$51,002,000 of lease liabilities.

12. INVENTORIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Raw materials	2,743,664	3,610,014
Finished goods	827,411	1,276,332
	<u>3,571,075</u>	<u>4,886,346</u>

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivables of HK\$3,654,259,000 (2018: HK\$4,152,673,000).

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.

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
Not exceeding 30 days	3,579,848	3,355,730
31–60 days	35,789	683,939
61–90 days	4,925	74,183
91–120 days	15,811	21,103
Over 120 days	17,886	17,718
	<u>3,654,259</u>	<u>4,152,673</u>

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$1,387,515,000 (2018: HK\$1,935,034,000).

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.

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
Not exceeding 30 days	759,184	776,731
31–60 days	189,914	448,024
61–90 days	243,733	396,863
91–120 days	123,059	287,573
Over 120 days	71,625	25,843
	<u>1,387,515</u>	<u>1,935,034</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued USD 300 million perpetual capital securities which are listed on the Stock Exchange at an issue price of 100 per cent. Distribution is payable semi-annually in arrear based on a fixed rate, which is 5.5 per cent per annum. Distribution by the Issuer may be deferred at its sole discretion. These perpetual capital securities have no fixed maturity and are redeemable in whole, but not in part, at the Issuer’s option on 29 May 2024, or any distribution payment date falling thereafter at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower rank.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK13 cents (2018: HK15 cents) per share for the year ended 31 December 2019 to shareholders whose names appear on the Register of Members on 7 May 2020. 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 20 May 2020.

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 24 April 2020. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 21 April 2020 to 24 April 2020, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 20 April 2020.

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 HK13 cents per share in cash for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on 7 May 2020 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 4 May 2020 to 7 May 2020, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 29 April 2020.

BUSINESS REVIEW AND OUTLOOK

Business Review and Outlook

In the year 2019, under the impact of supply-side reform, trade frictions and other factors, the paper manufacturing industry has been encountering challenges and adjustments. Lee & Man Paper has experienced slowdown amidst stability, recording decreases in both sales revenue and profit, which was within the expectation of the Group. The strategic goal of the Group remained unchanged. For the year 2019, the Group recorded total revenue of HK\$27.14 billion, decreased by 15.7% as compared to last year. Net profit decreased by 32.4% to HK\$3.30 billion. Earnings per share for the year was HK73.95 cents (2018: HK109.92 cents). The board of directors proposed a final dividend of HK13 cents (2018: HK15 cents) per share for 2019. During the year, the aggregate sales of the Group amounted to 6.29 million tons, while its net profit per ton was of HK\$525.

Industry and Business Review

According to ASKCI Consulting Company Limited, over the four years from 2014 to 2017, the operating income of the paper manufacturing industry in China continued to grow and the profitability also tended to be stable. However, from the second half of 2018, with the promotion of supply-side reform in Mainland China as well as the restriction of new capacity investment owing to the tightening of environmental policy, both supply and demand of the industry stayed low. In the international arena, the US-China trade war began in late August 2018, 25% tariffs on imported waste paper were imposed resulting in shortage of raw materials supply. At the same time, market demand from downstream remained poor. Amidst the impact of a series of factors, the profitability of the paper manufacturing industry has declined.

The paper manufacturing industry still faced certain pressure in 2019. In addition, the ongoing US-China trade friction resulted in the substantial increase in the cost of paper production, which has in turn affected consumer confidence. The Group has proactively responded to the changes in market. The Group has been committed to developing a vertical business model through active consolidation of its upstream resources covering pulp manufacturing and recycling of waste paper so as to achieve an integrated industrial chain to ensure the supply of raw materials. At the same time, by expanding scale, controlling costs and strengthening production capacity leveraging the existing business foundation, the Group will have more opportunities for business development.

Business Prospect

With the signing of the first phase of the US-China trade agreement at the beginning of the year, uncertainties have been greatly reduced and it is expected that market sentiments will be enhanced which should be conducive to global economic recovery supporting the potential economic growth of China. However, the recent novel coronavirus (COVID-19) epidemic might also be posting uncertainty to the situation. The Group will make a proactive effort to optimise the industrial chain for achieving diversification of the paper and pulp businesses. In the meantime, leveraging the existing business foundation, the Group will support the “Belt & Road” initiatives, targeting Southeast Asia market for international development and new production capacity increase. In future, the Group will continue to seek business opportunities in countries and cities along the Belt & Road and is confident in the long term development of the region.

As for the tissue paper business, it is a major focus of the Group and an integrated product chain has been formed. Lee & Man Paper has endeavored to improve the quality of consumer tissue and boost its scale of production in order to satisfy people’s needs for health and environmental protection as well as consumption requirements. The tissue business has maintained steady growth as a whole. The new tissue production line with capacity of 100,000 tons at Jiangxi plant has commenced operation and the tissue business has become the new growth driver of the Group. The Group will focus on the requirements of the consumers and continue to adopt effective strategies for developing the tissue business.

Packaging paper is still the core business of the Group. Since the outbreak of the US-China trade war in 2018, the packaging paper business in Mainland China has relatively shrunk. In addition, Mainland China embarked on waste paper import restriction policy starting from 2017. The relevant policy restricted the supply of raw materials and had have some bearing on the domestic paper manufacturing industry, in turn impacting the waste paper recycling of the Group. The Group will actively seek alternative methods for the import of waste paper.

The Group will stay committed to offering quality products to the public, adhere to a principle that places equal emphasis on production and operation as well as environmental protection, strengthen environmental management, step up efforts in reducing sewage, and implement energy conservation and emission reduction measures. In the long run, it is believed there is still substantial room for growth in the paper manufacturing industry. The Group will seize opportunities to expand its market coverage and maintain competitiveness in the prevailing paper manufacturing industry.

Conclusion

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company for the year ended 31 December 2019 was HK\$27.14 billion and HK\$3.30 billion respectively, while its net profit per tonne was HK\$525.

The earnings per share for the year was HK73.95 cents when compared with HK109.92 cents for the year ended 31 December 2018.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$612 million for the year ended 31 December 2019 as compared to HK\$581 million for the year ended 31 December 2018. It represented about 2.3% of the revenue for the year ended 31 December 2019 and was increased as compared to about 1.8% for the year ended 31 December 2018.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$1,163 million for the year ended 31 December 2019 as compared to HK\$1,518 million for the year ended 31 December 2018. It represented about 4.3% of the revenue for the year ended 31 December 2019 and was decreased as compared to that of 4.7% for the year ended 31 December 2018.

Finance Costs

The Group's total finance costs (including the amounts capitalised) was HK\$418 million for the year ended 31 December 2019 as compared to HK\$389 million for the year ended 31 December 2018. 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 54 days and 10 days, respectively, for the year ended 31 December 2019 as compared to 61 days and 16 days, respectively, for the year ended 31 December 2018.

The Group's debtors' turnover days were 39 days for the year ended 31 December 2019 as compared to 35 days for the year ended 31 December 2018. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 27 days for the year ended 31 December 2019, which was comparable to 33 days for the year ended 31 December 2018.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 31 December 2019 was HK\$26,083 million (2018: HK\$23,146 million). As at 31 December 2019, the Group had current assets of HK\$12,491 million (2018: HK\$13,280 million) and current liabilities of HK\$8,460 million (2018: HK\$10,222 million). The current ratio was 1.48 as at 31 December 2019 as compared to 1.30 at 31 December 2018.

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 2019, the Group had outstanding bank borrowings of HK\$12,336 million (2018: HK\$13,790 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 31 December 2019, the Group maintained bank balances and cash of HK\$2,919 million (2018: HK\$2,012 million). During the year, the Company issued USD300 million perpetual capital securities and the Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) further decreased from 0.51 as at 31 December 2018 to 0.36 as at 31 December 2019.

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 2019. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

Employees

As at 31 December 2019, the Group had a workforce of about 8,300 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Group.

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

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

During the year, the Company repurchased a total of 19,462,000 shares of HK\$0.025 per share through the Stock Exchange at an aggregate consideration of approximately HK\$94,633,000 (including transaction costs). All of the shares repurchased were cancelled during the year. Details of shares repurchased during the year are set out as follows:

Month	Number of shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Aggregate consideration paid (including expenses) <i>HK\$'000</i>
January	6,270,000	6.54	6.40	40,790
August	12,169,000	4.13	3.94	49,631
October	1,023,000	4.09	4.06	4,212
Total	<u>19,462,000</u>			<u>94,633</u>

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

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

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

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the Group's consolidated financial statements for the year ended 31 December 2019, 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 2019. 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 2019 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 24 April 2020. 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, 5 March 2020

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.