

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liabilities whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2021**

**FINANCIAL HIGHLIGHTS**

- Revenue increased by 37.1% to HK\$15.2 billion as compared to the last corresponding period.
- Profit for the period increased by 42.8% to HK\$2.0 billion as compared to the last corresponding period.
- Earnings per share was HK44.54 cents.
- Declared interim dividend of HK15 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 2021 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 2021

	<i>Notes</i>	<b>2021</b> <b>(unaudited)</b> <b>HK\$'000</b>	2020 (unaudited) HK\$'000
<b>Revenue</b>	3	<b>15,180,233</b>	11,070,855
Cost of sales		<u><b>(11,842,397)</b></u>	<u>(8,905,211)</u>
Gross profit		<b>3,337,836</b>	2,165,644
Other income	4	<b>392,801</b>	343,203
Impairment losses on trade receivables, net of reversal		<b>(63,345)</b>	41
Other gains and losses	5	<b>(74,516)</b>	23,158
Distribution and selling expenses		<b>(503,774)</b>	(307,664)
General and administrative expenses		<b>(723,644)</b>	(501,538)
Finance costs	6	<u><b>(32,784)</b></u>	<u>(81,164)</u>
Profit before tax		<b>2,332,574</b>	1,641,680
Income tax expense	7	<u><b>(332,391)</b></u>	<u>(240,807)</u>
<b>Profit for the period</b>	8	<b>2,000,183</b>	1,400,873
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><b>585,749</b></u>	<u>(1,204,796)</u>
Total comprehensive income for the period		<u><b>2,585,932</b></u>	<u>196,077</u>
Profit for the period attributable to:			
Owners of the Company		<b>1,935,969</b>	1,336,120
Perpetual capital securities holders		<b>64,080</b>	64,749
Non-controlling interests		<u><b>134</b></u>	<u>4</u>
		<u><b>2,000,183</b></u>	<u>1,400,873</u>

		<b>2021</b>	2020
		<b>(unaudited)</b>	(unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Total comprehensive income/(expense) attributable to:			
Owners of the Company		<b>2,521,682</b>	131,424
Perpetual capital securities holders		<b>64,080</b>	64,749
Non-controlling interests		<b>170</b>	(96)
		<u><b>2,585,932</b></u>	<u>196,077</u>
Dividends:			
– Dividend paid	9	<u><b>782,396</b></u>	<u>565,063</u>
– Interim dividend declared		<u><b>651,996</b></u>	<u>521,597</u>
		<b>HK cents</b>	<b>HK cents</b>
Earnings per share	10	<u><b>44.54</b></u>	<u>30.68</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		30 June 2021 (unaudited) <i>HK\$'000</i>	31 December 2020 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	32,970,439	31,890,840
Right-of-use assets		1,149,957	1,120,714
Investment properties		605,864	596,563
Deposits paid for acquisition of property, plant and equipment and land use rights		1,656,845	1,030,661
Interest in a joint venture		87,771	87,771
Loan to a joint venture		74,332	71,376
		<b>36,545,208</b>	<b>34,797,925</b>
<b>CURRENT ASSETS</b>			
Inventories	12	5,647,928	4,350,064
Trade and other receivables	13	7,302,009	6,064,257
Bills receivables discounted with recourse		21,687	303,934
Amounts due from related companies		103,420	99,390
Bank balances and cash		1,572,211	1,184,921
		<b>14,647,255</b>	<b>12,002,566</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	2,915,010	2,630,527
Advances drawn on bills receivables discounted with recourse		21,687	303,934
Amounts due to related companies		19,017	16,056
Tax payable		177,489	252,605
Lease liabilities		23,146	17,518
Contract liabilities		104,935	108,948
Bank borrowings		9,405,456	5,255,174
		<b>12,666,740</b>	<b>8,584,762</b>
<b>NET CURRENT ASSETS</b>		<b>1,980,515</b>	<b>3,417,804</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>38,525,723</b>	<b>38,215,729</b>

	<b>30 June 2021 (unaudited) HK\$'000</b>	31 December 2020 (audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Bank borrowings	<b>4,584,676</b>	6,071,631
Lease liabilities	<b>58,003</b>	56,383
Deferred tax liabilities	<b>1,393,173</b>	1,337,300
	<u><b>6,035,852</b></u>	<u>7,465,314</u>
	<u><b>32,489,871</b></u>	<u>30,750,415</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>108,666</b>	108,666
Reserves	<b>30,050,692</b>	28,311,406
	<u><b>30,159,358</b></u>	<u>28,420,072</u>
Equity attributable to owners of the Company	<b>30,159,358</b>	28,420,072
Perpetual capital securities	<b>2,322,814</b>	2,322,814
Non-controlling interests	<b>7,699</b>	7,529
	<u><b>32,489,871</b></u>	<u>30,750,415</u>

*Note*

*15*

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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

### *Application of amendments to HKFRSs*

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

Except as described below, the amendments to HKFRSs in the current 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 Amendment to HKFRS 16 “Covid-19-Related Rent Concessions” and early application of Amendment to HKFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021”**

The application of these amendments has had no material impact on the Group’s financial positions and performance in the current and prior periods as the Group opted not to apply the practical expedient, but applied the applicable requirements of HKFRS 16 *Leases* to account for rent concessions provided by certain lessors.

## 2.2 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

### 2.2.1 Accounting policies

#### *Financial instruments*

##### Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e the basis immediately preceding the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 *Financial Instrument* on modification of a financial asset or a financial liability to the additional changes to which the practical expedient does not apply.

##### Hedge accounting

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

##### Cash flows hedges

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

## *Leases*

### The Group as a lessee

#### *Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform*

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Group uses the revised discount rate that reflects change in the interest rate and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

If lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, the Group applies the applicable requirements in HKFRS 16 to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

### The Group as a lessor

#### *Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform*

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform for a finance lease that is not accounted for as a separate lease, the Group applies the same accounting policies as those applicable to financial instruments.

### **2.2.2 *Transition and summary of effects***

The amendments had no impact on the condensed consolidated financial statements of the Group.



### 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 2021*

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

*Six months ended 30 June 2020*

	Packaging paper HK\$'000	Tissue paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	9,018,096	2,047,081	5,678	11,070,855	–	11,070,855
Inter-segment sales	–	–	365,275	365,275	(365,275)	–
	<u>9,018,096</u>	<u>2,047,081</u>	<u>370,953</u>	<u>11,436,130</u>	<u>(365,275)</u>	<u>11,070,855</u>
SEGMENT PROFIT	<u>1,416,199</u>	<u>266,981</u>	<u>685</u>	<u>1,683,865</u>	<u>–</u>	<u>1,683,865</u>
Net gain from fair value changes of derivative financial instruments						4,718
Unallocated income						41,939
Unallocated expenses						(7,678)
Finance costs						(81,164)
Profit before tax						<u>1,641,680</u>

#### 4. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Value added tax and other tax refund	242,746	162,640
Sales of materials and waste paper	35,236	35,838
Income from supply of steam and electricity	22,842	24,031
Income from wharf cargo handling	18,072	8,543
Interest income from banks	7,773	22,017
Others	66,132	90,134
	<u>392,801</u>	<u>343,203</u>

#### 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment	(64,141)	(1,482)
Net foreign exchange differences	(10,431)	19,922
Net gain from fair value changes of derivative financial instruments	56	4,718
	<u>(74,516)</u>	<u>23,158</u>

#### 6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	93,283	166,222
Interest on lease liabilities	1,609	1,133
Less: amounts capitalised to property, plant and equipment	(62,108)	(86,191)
	<u>32,784</u>	<u>81,164</u>

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	276,813	115,874
– PRC withholding tax on dividend distribution	–	68,133
	<u>276,813</u>	<u>184,007</u>
(Over)/under provision in previous year		
– The PRC EIT	(295)	781
Deferred tax		
– Charge to profit or loss	55,873	56,019
	<u>55,873</u>	<u>56,019</u>
	<u>332,391</u>	<u>240,807</u>

The Group’s profit is subject to taxation from the place of its operations where its profit is generated and is calculated at the rate prevailing in the relevant jurisdictions.

### The PRC

The Group’s subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that six (2020: six) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ending 31 December 2021.

### Hong Kong

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the current period. During the six months ended 30 June 2020, no assessable profit was noted for that period.

### 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 was made for the six months ended 30 June 2020 as the Vietnam subsidiaries entitled tax exemption for that period.

### Others

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

## 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Profit for the period has been arrived at after charging/(crediting):		
Directors' emoluments	<b>21,400</b>	20,325
Staff salaries and other benefits, excluding those of directors	<b>739,748</b>	542,236
Contributions to retirement benefit schemes, excluding those of directors	<b>64,850</b>	29,034
	<hr/>	<hr/>
Total employee benefit expense	<b>825,998</b>	591,595
Capitalised in inventories	<b>(623,933)</b>	(415,902)
	<hr/>	<hr/>
	<b>202,065</b>	175,693
	<hr/>	<hr/>
Cost of inventories recognised as expense	<b>11,842,397</b>	8,905,211
Depreciation of property, plant and equipment	<b>734,625</b>	610,802
Depreciation of investment properties	<b>12,267</b>	11,195
Depreciation of right-of-use assets	<b>20,395</b>	14,709
	<hr/>	<hr/>
Total depreciation	<b>767,287</b>	636,706
Capitalised in inventories	<b>(679,867)</b>	(560,641)
	<hr/>	<hr/>
	<b>87,420</b>	76,065
	<hr/>	<hr/>
Operating lease rentals in respect of land and buildings	<b>24,443</b>	22,143
	<hr/>	<hr/>
Gross rental income from investment properties	<b>(17,396)</b>	(14,350)
Less:		
– direct operation expenses incurred for investment properties that generated rental income during the period	<b>203</b>	186
	<hr/>	<hr/>
	<b>(17,193)</b>	(14,164)
	<hr/>	<hr/>

## 9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

A final dividend of HK\$0.18 per share was paid in respect of the year ended 31 December 2020 (2020: a final dividend of HK\$0.13 per share was paid for the year ended 31 December 2019) to shareholders during the current period.

The directors determined that an interim dividend of HK\$0.15 (2020: HK\$0.12) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 24 August 2021.

In addition, the Company has made a distribution on perpetual capital securities of HK\$64,080,000 (2020: HK\$64,749,000) to the securities holders during the six months ended 30 June 2021.

## 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\$1,935,969,000 (2020: HK\$1,336,120,000) and weighted average number of 4,346,642,000 (2020: 4,354,927,802) 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\$1,161 million (2020: HK\$1,782 million) to property, plant and equipment to expand its operations.

## 12. INVENTORIES

	<b>30 June 2021</b>	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	<b>3,896,349</b>	3,427,090
Finished goods	<b>1,751,579</b>	922,974
	<b><u>5,647,928</u></b>	<u>4,350,064</u>

### 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2021 HK\$'000</b>	31 December 2020 HK\$'000
Trade receivables	<b>3,682,011</b>	3,296,960
Less: allowance for credit losses	<b>(87,046)</b>	(71,041)
	<b>3,594,965</b>	3,225,919
Bills receivables	<b>1,355,208</b>	963,275
	<b>4,950,173</b>	4,189,194
Prepayments and deposits for purchase of raw materials	<b>817,420</b>	789,629
Value-added tax receivable	<b>617,661</b>	374,610
Other deposits and prepayments	<b>404,948</b>	276,615
Other receivables	<b>511,807</b>	434,209
	<b>7,302,009</b>	6,064,257

The Group allows its customers an average credit period of 45 to 90 days (2020: 45 to 90 days). The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period.

	<b>30 June 2021 HK\$'000</b>	31 December 2020 HK\$'000
Aged:		
Not exceeding 30 days	<b>3,767,329</b>	3,258,482
31–60 days	<b>880,758</b>	639,587
61–90 days	<b>139,060</b>	97,206
91–120 days	<b>39,783</b>	58,014
Over 120 days	<b>123,243</b>	135,905
	<b>4,950,173</b>	4,189,194

#### 14. TRADE AND OTHER PAYABLES

	<b>30 June 2021 HK\$'000</b>	31 December 2020 HK\$'000
Trade and bills payables	<b>1,626,168</b>	1,455,188
Construction fee payable	<b>423,105</b>	483,478
Accruals	<b>409,014</b>	472,108
Other payables	<b>456,723</b>	219,753
	<b><u>2,915,010</u></b>	<b><u>2,630,527</u></b>

The average credit period taken for trade purchases ranges from 30 to 120 days (2020: 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.

	<b>30 June 2021 HK\$'000</b>	31 December 2020 HK\$'000
Aged:		
Not exceeding 30 days	<b>745,936</b>	644,824
31–60 days	<b>379,972</b>	290,524
61–90 days	<b>267,961</b>	252,961
91–120 days	<b>166,301</b>	118,145
Over 120 days	<b>65,998</b>	148,734
	<b><u>1,626,168</u></b>	<b><u>1,455,188</u></b>

#### 15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued United States dollars 300,000,000 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.

As the perpetual capital securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity for accounting purpose.

#### 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**

In the first half of 2021, the COVID-19 pandemic situation remained volatile. Although various measures were introduced to boost economies around the world, the pace of recovery has been uneven, and rising inflation has increased expectations for interest rate hikes, hindering global economic growth. China's paper manufacturing industry not only faced an uncertain macro environment, but also other challenges such as rising pulp prices, tight supply of waste paper raw materials, and social transformation into a green economy, resulting in increasing pressure on operations.

Followed the recovery of the COVID-19 in China, the Group's total revenue for the six months ended 30 June 2021 increased by 37.1% to HK\$15.2 billion as compared to the same period of last year. Resulted from the economies of scale and cost advantages, the profit for the period increased by 42.8% to HK\$2.0 billion as compared to the same period of last year. Earnings per share for the period were HK44.54 cents (2020: HK30.68 cents).

The board of directors has resolved to declare an interim dividend of HK15 cents per share in 2021 (2020: HK12 cents). The aggregate sales of the Group for the six months ended 30 June 2021 amounted to 3.08 million tons, while net profit per ton was HK\$650.

## **INDUSTRY AND BUSINESS REVIEW**

Following the implementation of China's "waste ban" in January 2021, solid waste, including waste paper, can no longer be imported. The supply of waste paper in the Mainland is limited, hence the prices of raw materials have risen. In addition, international shipping has been restricted due to the pandemic, and transportation costs have skyrocketed, which further suppressed the industrial margin. Meanwhile, the "Plastic Restriction Order" has fueled the "replacement of plastic with paper" trend, and this, along with the recovery of consumer market demand and accelerating industrial production, has caused the demand for paper products to further increase. Under relatively tight supply, the paper manufacturing industry has faced rising prices. In response to changes in the market, the Group has continued to consolidate upstream resources and develop a vertical business model covering pulp-making and waste paper recycling in order to integrate the industrial chain and ensure the supply of raw materials. At the same time, the Group has continued to expand its scale, control costs, and increase production capacity on the basis of its existing business, creating more opportunities to further enhance its performance.



## **BUSINESS PROSPECTS**

China has effectively contained the COVID-19 pandemic and vaccination has been rolled out in an orderly manner. Under the dual circulation and new development landscape, consumption and investment have resumed growth. The macro-economic atmosphere has seen an obvious improvement, with stronger market expectations and greater confidence. The Group is actively optimizing the industrial chain to diversify its paper and pulp business, further enhancing operational stability and strengthening its profit base. The Group has also supported the “Belt and Road” initiative, targeting the Southeast Asian market for international development and ensuring good use of local resources to optimize operational efficiency. The Group introduced new production capacities in countries such as Vietnam, Malaysia and Indonesia. In the future, it will continue to explore business opportunities in countries and cities along the Belt and Road. The Group is confident in the long-term development of the paper manufacturing industry in the region.

Regarding the tissue paper business, the Group considers it a major focus and therefore has established an integrated product chain. The Group has endeavored to improve the quality of consumer tissue paper and has boosted its scale of production. The Group produces natural bamboo unbleached tissue in order to satisfy the need for health and environmental protection of the society as well as consumption requirements. The Group’s tissue paper business has maintained steady growth and can put out about 900,000 tons of tissue paper annually. The Group will focus on the needs of the market and the customer demand and continue to adopt effective strategies to further develop the tissue paper business.

The packaging paper business is the core business of the Group. With the increasing prevalence of online consumption in China and overseas, there is growing demand for quality packaging paper in the market. This, coupled with the implementation of the plastic restriction order in China, has created favorable conditions for the Group’s packaging paper business. The Group will actively expand the recycled pulp business in Southeast Asia to replace imported waste paper and strengthen the allocation of raw materials in order to ensure its production cost advantage. The second paper-making machine in the Malaysian plant was put into production in April this year, with an annual production capacity of 350,000 tons. The Group also invested in Cambodia during the period to expand the local paper-making business.

As well as providing quality products at reasonable prices to maintain its competitiveness, the Group is also committed to fulfilling its corporate social responsibilities in reducing pollution and carbon emissions through waste paper recycling and advanced production technologies, so as to bring more eco-friendly products to customers. The paper-making industry still has tremendous room for development in the long run. Going forward, the Group will seize new opportunities to expand its market scale and maintain its 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 for the six months ended 30 June 2021 were HK\$15,180 million, HK\$2,000 million and HK\$1,936 million, respectively and that for the corresponding period last year were HK\$11,071 million, HK\$1,401 million and HK\$1,336 million, respectively. The earnings per share for the period was HK44.54 cents as compared to HK30.68 cents for the corresponding period last year.

Both sales revenue and profit during the six months ended 30 June 2021 increased as expected mainly due to the slight economic recovery from the COVID-19.

### **Distribution and Selling Expenses**

The Group's distribution and selling expenses was HK\$504 million for the six months ended 30 June 2021 as compared to HK\$308 million for the corresponding period last year. It represented about 3.3% of the revenue for the six months ended 30 June 2021 and was increased as compared to that of 2.8% for the corresponding period last year.

### **General and Administrative Expenses**

The Group's general and administrative expenses was HK\$724 million for the six months ended 30 June 2021 as compared to HK\$502 million for the corresponding period last year. It represented about 4.8% of the revenue for the six months ended 30 June 2021 and was increased as compared to that of 4.5% for the corresponding period last year due to the expansion in coverage in Southeast Asia market.

### **Finance Costs**

The Group's total finance costs (including the interest on lease liabilities and amount capitalised) was HK\$95 million for the six months ended 30 June 2021 as compared to HK\$167 million for the corresponding period last year. The decrease was mainly due to the decrease in 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 66 days and 17 days, respectively, for the six months ended 30 June 2021 as compared to 71 days and 10 days, respectively, for the year ended 31 December 2020.

The Group's debtors' turnover days were 43 days for the six months ended 30 June 2021 as compared to 46 days for the year ended 31 December 2020. 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 six months ended 30 June 2021 as compared to 30 days for the year ended 31 December 2020.

## **Liquidity, Financial Resources and Capital Structure**

The total shareholders' fund of the Group as at 30 June 2021 was HK\$32,490 million (31 December 2020: HK\$30,750 million). As at 30 June 2021, the Group had current assets of HK\$14,647 million (31 December 2020: HK\$12,003 million) and current liabilities of HK\$12,667 million (31 December 2020: HK\$8,585 million). The current ratio was 1.16 as at 30 June 2021 as compared to 1.40 at 31 December 2020.

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 2021, the Group had outstanding bank borrowings of HK\$13,990 million (31 December 2020: HK\$11,327 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2021, the Group maintained bank balances and cash of HK\$1,572 million (31 December 2020: HK\$1,185 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.33 as at 31 December 2020 to 0.38 as at 30 June 2021 as the result of the expansion in Southeast Asia.

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 2021. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

## **EMPLOYEES**

As at 30 June 2021, the Group had a workforce of more than 9,800 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\$0.15 (2020: HK\$0.12) per share for the six months ended 30 June 2021 to shareholders whose names appear on the Register of Members on 24 August 2021. It is expected that the interim dividend will be paid around 3 September 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 19 August 2021 to 24 August 2021, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accomplished by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 pm on 18 August 2021.

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

During the six months ended 30 June 2021, 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 2021. 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 2021.

## 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 2021.

On behalf of the Board  
**Lee Man Chun Raymond**  
*Chairman*

Hong Kong, 4 August 2021

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