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理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

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

(Stock Code: 2314)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

FINANCIAL HIGHLIGHTS

- Revenue increased by 2.4% to HK\$12.5 billion as compared to the last corresponding period.
- Profit for the period increased by 123.4% to HK\$806 million as compared to the last corresponding period.
- Earnings per share was HK17.69 cents.
- Declared interim dividend of HK6.2 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 2024 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 2024

	<i>Notes</i>	2024 (unaudited) HK\$'000	2023 (unaudited) HK\$'000
Revenue	3	12,505,338	12,207,102
Cost of sales		<u>(10,877,045)</u>	<u>(11,227,458)</u>
Gross profit		1,628,293	979,644
Other income	4	344,279	405,054
Impairment losses on trade receivables, net of reversal		–	733
Other gains and losses, net	5	23,457	(1,593)
Distribution and selling expenses		(306,135)	(302,250)
General and administrative expenses		(604,621)	(542,498)
Share of result of an associate		711	(519)
Share of result of a joint venture		(32)	38
Finance costs	6	<u>(178,268)</u>	<u>(100,475)</u>
Profit before tax		907,684	438,134
Income tax expense	7	<u>(102,160)</u>	<u>(77,518)</u>
Profit for the period	8	805,524	360,616
Other comprehensive (expense)/income <i>Item that may be reclassified subsequently to to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(263,282)</u>	<u>487,367</u>
Total comprehensive income for the period		<u>542,242</u>	<u>847,983</u>
Profit/(loss) for the period attributable to:			
Owners of the Company:			
– Ordinary shareholders		760,212	307,930
– Perpetual capital securities holders		45,473	51,967
Non-controlling interests		<u>(161)</u>	<u>719</u>
		<u>805,524</u>	<u>360,616</u>

		2024	2023
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Total comprehensive income/(expense) attributable to:			
Owners of the Company:			
– Ordinary shareholders		496,943	795,447
– Perpetual capital securities holders		45,473	51,967
Non-controlling interests		(174)	569
		542,242	847,983
Dividends:	9		
– Dividend paid		262,015	142,216
– Interim dividend declared		266,290	107,739
		HK cents	HK cents
Earnings per share	10	17.69	7.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

		30 June 2024	31 December 2023
		(unaudited)	(audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	38,370,963	37,788,561
Right-of-use assets		1,221,987	1,240,196
Investment properties		512,628	526,099
Deposits paid for acquisition of property, plant and equipment		1,021,701	886,075
Interest in an associate		110,139	102,456
Interest in a joint venture		80,413	80,786
Loan to a joint venture		52,257	63,955
Trade and other receivables and prepayments	<i>13</i>	268,000	268,000
		41,638,088	40,956,128
CURRENT ASSETS			
Inventories	<i>12</i>	4,626,671	4,921,137
Trade and other receivables and prepayments	<i>13</i>	6,834,635	6,700,611
Amounts due from related companies		2,681	2,296
Bank balances and cash		1,746,371	1,517,149
		13,210,358	13,141,193
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	3,288,404	3,657,943
Amounts due to related companies		9,205	14,631
Tax payable		52,423	99,835
Lease liabilities		16,905	16,710
Contract liabilities		84,249	58,292
Advances drawn on bills discounted with recourse		480,942	551,555
Bank borrowings		7,953,157	7,037,100
		11,885,285	11,436,066
NET CURRENT ASSETS		1,325,073	1,705,127
TOTAL ASSETS LESS CURRENT LIABILITIES		42,963,161	42,661,255

	30 June 2024	31 December 2023
	(unaudited)	(audited)
<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Bank borrowings	14,003,801	12,256,122
Lease liabilities	53,320	59,376
Deferred tax liabilities	1,601,136	1,578,795
	<u>15,658,257</u>	<u>13,894,293</u>
	<u>27,304,904</u>	<u>28,766,962</u>
CAPITAL AND RESERVES		
Share capital	107,375	107,720
Reserves	27,188,253	27,008,708
	<u>27,295,628</u>	<u>27,116,428</u>
Perpetual capital securities	<i>15</i> –	1,641,084
	<u>27,295,628</u>	<u>28,757,512</u>
Non-controlling interests	9,276	9,450
	<u>27,304,904</u>	<u>28,766,962</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 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.

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 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2023.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

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

2.1 Impacts on application of Amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements*

The Group will apply Amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements* which are mandatorily effective for the Group’s annual period beginning on 1 January 2024 for the preparation of the Group’s consolidated financial statements for the year ending 31 December 2024.

The amendments add a disclosure objective to HKAS 7 *Statement of Cash Flows* stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity’s liabilities and cash flows. In addition, HKFRS 7 *Financial Instruments: Disclosures* was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity’s exposure to concentration of liquidity risk.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group’s liabilities, cash flows and the Group’s exposure to liquidity risk related to the supplier finance arrangements entered into by the Group in the Group’s annual consolidated financial statements for the year ending 31 December 2024.

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 2024

	Packaging paper HK\$'000	Tissue paper HK\$'000	Pulp HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	9,547,090	2,515,580	442,668	12,505,338	-	12,505,338
Inter-segment sales	-	-	1,323,187	1,323,187	(1,323,187)	-
	<u>9,547,090</u>	<u>2,515,580</u>	<u>1,765,855</u>	<u>13,828,525</u>	<u>(1,323,187)</u>	<u>12,505,338</u>
SEGMENT PROFIT	<u>464,368</u>	<u>465,176</u>	<u>113,777</u>	<u>1,043,321</u>	<u>-</u>	<u>1,043,321</u>
Net gain from fair value changes of derivative financial instruments						116
Unallocated income						64,588
Unallocated expenses						(22,752)
Share of result of an associate						711
Share of result of a joint venture						(32)
Finance costs						(178,268)
Profit before tax						<u>907,684</u>

Six months ended 30 June 2023

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

4. OTHER INCOME

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Value added tax and other tax refund	72,660	142,666
Income from supply of steam and electricity, net	12,387	13,636
Income from wharf cargo handling, net	13,872	16,359
Interest income from banks	6,268	8,829
Government subsidy income	133,648	135,824
Rental income	26,765	23,416
Write-back of trade and other payables	–	4,077
Others	78,679	60,247
	<u>344,279</u>	<u>405,054</u>

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Loss on disposal of property, plant and equipment, net	(8,204)	(2,755)
Net foreign exchange differences	31,545	1,074
Net gain from fair value changes of derivative financial instruments	116	88
	<u>23,457</u>	<u>(1,593)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Interest on bank borrowings and bills discounted	460,748	356,133
Interest expense on lease liabilities	1,654	1,955
Less: amounts capitalised to property, plant and equipment	(284,134)	(257,613)
	<u>178,268</u>	<u>100,475</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	31,121	16,373
– PRC withholding tax on dividend distribution	91,324	7,021
– Other jurisdictions	20,564	9,766
	<u>143,009</u>	<u>33,160</u>
Under/(over) provision in previous years		
– The PRC EIT	2,448	(3,297)
– Other jurisdictions	–	1,055
Deferred tax		
– (Credit)/charge to profit or loss	(43,297)	46,600
	<u>102,160</u>	<u>77,518</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 seven (2023: eight) of these subsidiaries are entitled to preferential rate of 15% for the Group’s financial year ending 31 December 2024.

Hong Kong

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

Macau

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

Vietnam

The Vietnam subsidiaries are subjected to Vietnam Corporate Income Tax at a rate of 10%. They are entitled to a corporate income tax exemption for four years from the first profit-making year and a reduction of 50% for the following nine years. The Vietnam subsidiaries are entitled a reduction of 50% of Vietnam Corporate Income Tax rate of 10% for both periods.

Malaysia

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

Others

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

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging/(crediting):		
Directors' emoluments	25,275	25,584
Staff salaries and other benefits, excluding those of directors	757,948	702,582
Contributions to retirement benefit schemes, excluding those of directors	85,007	67,608
	<hr/>	<hr/>
Total employee benefit expense	868,230	795,774
Capitalised in inventories	(604,804)	(567,066)
	<hr/>	<hr/>
	263,426	228,708
	<hr/>	<hr/>
Cost of inventories recognised as expense	10,877,045	11,227,458
Depreciation of property, plant and equipment	677,675	613,921
Depreciation of investment properties	12,026	11,686
Depreciation of right-of-use assets	21,211	26,804
	<hr/>	<hr/>
Total depreciation	710,912	652,411
Capitalised in inventories	(587,841)	(560,931)
	<hr/>	<hr/>
	123,071	91,480
	<hr/>	<hr/>
Gross rental income from investment properties	(17,159)	(14,424)
Less:		
– direct operation expenses incurred for investment properties that generated rental income during the period	240	278
	<hr/>	<hr/>
	(16,919)	(14,146)
	<hr/>	<hr/>

9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

A final dividend of HK\$0.061 per share was paid in respect of the year ended 31 December 2023 (2023: a final dividend of HK\$0.033 per share was paid for the year ended 31 December 2022) to shareholders during the current period.

The directors determined that an interim dividend of HK\$0.062 (2023: HK\$0.025) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 21 August 2024.

In addition, the Company has made a distribution on perpetual capital securities of HK\$45,473,000 (2023: HK\$51,967,000) to the securities holders during the six months ended 30 June 2024.

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\$760,212,000 (2023: HK\$307,930,000), ordinary shareholders for the period, and weighted average number of 4,296,699,297 (2023: 4,309,565,000) ordinary shares in issue during the period.

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

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, there were additions of HK\$1,536 million (2023: HK\$2,749 million) to property, plant and equipment to expand its operations.

12. INVENTORIES

	30 June 2024	31 December 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	2,845,776	3,323,104
Finished goods	1,780,895	1,598,033
	<u>4,626,671</u>	<u>4,921,137</u>

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Trade receivables	3,196,112	2,909,541
Less: allowance for credit losses	(39,596)	(39,596)
	3,156,516	2,869,945
Trade receivables backed by bills	476,885	787,651
Trade receivables backed by bills discounted with recourse	480,942	551,555
	4,114,343	4,209,151
Prepayments and deposits for purchase of raw materials	685,253	607,773
Other deposits and prepayments	578,922	533,416
Value-added tax receivables	886,318	881,263
Other receivables	837,799	737,008
	7,102,635	6,968,611
Less: Amount expected to be received after 12 months shown under non-current assets	(268,000)	(268,000)
Amount expected to be received within 12 months shown under current assets	6,834,635	6,700,611

The Group allows its customers an average credit period of 45 to 90 days (2023: 45 to 90 days). The following is an aged analysis of trade receivables (excluding those backed by bills) presented based on the invoice date at the end of the reporting period.

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Aged:		
Not exceeding 30 days	1,972,143	1,809,940
31–60 days	731,120	658,703
61–90 days	143,660	157,690
91–120 days	109,682	77,736
Over 120 days	199,911	165,876
	3,156,516	2,869,945

14. TRADE AND OTHER PAYABLES

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Trade payables	2,175,528	1,934,565
Construction fee payable	514,347	1,112,225
Accruals	378,384	398,333
Other payables	220,145	212,820
	<u>3,288,404</u>	<u>3,657,943</u>

The average credit period taken for trade purchases ranges from 30 to 90 days (2023: 30 to 90 days). The following is an aged analysis of the above trade payables presented based on the invoice date at the end of the reporting period.

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Aged:		
Not exceeding 30 days	1,220,007	1,102,725
31–60 days	388,730	176,834
61–90 days	109,805	164,490
91–120 days	118,404	270,730
Over 120 days	338,582	219,786
	<u>2,175,528</u>	<u>1,934,565</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued US\$300 million 5.50% senior perpetual capital securities (the “Securities”) at an issue price of 100 per cent which are listed on the Stock Exchange. Distribution is payable semi-annually in arrears based on a fixed rate of 5.5 per cent per annum. Distribution by the Issuer may be deferred at its sole discretion. The Securities have no fixed maturity and are redeemable in whole, but not in part, at the Issuer’s option on 29 May 2024, or any distribution payment date falling thereafter at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower rank.

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

For the year ended 31 December 2023, the Issuer repurchased the Securities in the open market and the Securities were redeemed by the Issuer and cancelled pursuant to the terms and conditions of the Securities as follows:

Date of repurchases	Aggregate principal amount of Securities repurchased <i>US\$</i>
9 June 2023	500,000
9 August 2023	900,000
29 August 2023	900,000
8 September 2023	6,130,000
15 September 2023	5,000,000
19 September 2023	200,000
11 October 2023	10,200,000
1 November 2023	2,000,000
2 November 2023	300,000
17 November 2023	1,350,000
	27,480,000

US\$213,100,000 (approximately of HK\$1,641,084,000) in aggregate principal amount of the Securities remain outstanding as at 31 December 2023.

On 27 March 2024 and 9 April 2024, the aggregate principal amount of the Securities of US\$300,000 (approximately of HK\$2,354,000) and US\$6,500,000 (approximately of HK\$50,993,000), respectively, was subsequently repurchased in the open market and redeemed by the Issuer and cancelled pursuant to the terms and conditions of the Securities. On 29 May 2024, US\$206,300,000 (approximately of HK\$1,587,737,000) in aggregate principal amount of the outstanding Securities was fully redeemed by the Issuer and cancelled pursuant to the terms and conditions of the Securities. There were no Securities in issue as at 30 June 2024.

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

Stepping into 2024, with demand in and outside mainland China continuing to improve, the Group's business also gradually recovered. In addition, although the prices of waste paper and pulp were volatile during the first half of the year, the Group, having pushed to integrate its industrial chain over the years, was able to flexibly allocate raw material supply, giving full play to the advantage of its business model, as such saw a marked climb in profit and satisfactory overall performance for the period.

The Group's total revenue for the six months ended 30 June 2024 increased by 2.4% to HK\$12.5 billion as compared with the same period last year. Net profit increased by 123.4% to HK\$806 million. Earnings per share for the period were HK17.69 cents (2023: HK7.15 cents).

The board of directors has declared an interim dividend of HK6.2 cents per share for 2024 (2023: HK2.50 cents). The aggregate sales of the Group for the six months ended 30 June 2024 amounted to 3.40 million tons, with net profit per ton at HK\$237.

INDUSTRY AND BUSINESS REVIEW

During the period under review, the paper manufacturing industry continued to be affected by the release of production capacity. However, at their effort to speed up destocking, paper manufacturers saw their overall production capacity gradually recovering to a healthy level. On the cost side, the price of pulp declined then climbed and the persistently high interest rates pushed up borrowing costs. In the first half year, paper manufacturers started sales promotion to gain market shares. The pace of economic recovery in the second half of the year is expected to be similar to that of the first half of the year, and the demand side will continue to recover.

Facing market changes and challenges, the Group consolidated its upstream resources to develop a vertical business model that covers pulp-making and waste paper recycling, a move to ensure its raw material supply chain is secure and stable, and effectively control cost, thereby further improve profitability. To fortify its cost advantage and gain market shares, the Group actively optimized deployment of production capacities. The new pulp production lines in Chongqing, Jiangxi and Guangxi started operation last year which brings considerable profits to the Group.

During the period under review, the Group actively expanded markets along the "Belt and Road". Its overseas production bases in Vietnam and Malaysia operated smoothly, allowing it to give full play to its cost advantage and achieve the goal of integrating pulp and paper. They have continued to make positive contributions to the Group's total revenue. The four paper-making production lines in Malaysia, which quickly moved into normal operation, have also helped the Group as an overseas production base to snatch share of the export market and explore new customer sources.

BUSINESS PROSPECTS

Packaging paper remains the Group's core business. Against the backdrop of the world seeking to rid plastics, the PRC government has speeded up tackling plastic pollution issues, promulgating such policies and plans as the Action Plan for Plastic Pollution Control during the 14th Five-Year Plan Period (《「十四五」塑料污染治理行動方案》), the Notice on Further Strengthening the Control of Excessive Packaging of Commodities (《關於進一步加強商品過度包裝治理的通知》) and the Issued Circular of the General Office of the State Council on the Development Plan for Modern Logistics during the 14th Five-Year Plan Period (《國務院辦公廳關於印發「十四五」現代物流發展規劃的通知》) in recent years, with the aim of strictly controlling plastic packaging and promoting adoption of recyclable packaging. That has opened up for the packaging paper industry a golden era for development, enabling the Group to stabilize its packaging paper business. As the mainland economy gradually warms up, consumer demand is expected to rebound at faster pace. That together with more shopping festivals and holidays falling in the second half year are going to help steadily push up demand for packaging paper. The Group will also continue to implement effective cost control measures to maintain competitiveness and consolidate market share.

Regarding overseas markets, expanding markets along the “Belt and Road” has been one of the strategic priorities of the Group in recent years. The Group will continue to take advantages of the geographical location and resources of the production bases in Vietnam and Malaysia to help it penetrate further the Southeast Asian market and enhance overall operational efficiency. At the same time, the Group will actively explore business opportunities in countries and cities along the “Belt and Road”, strengthen integration and international deployment of its industrial chain, and optimize its cost structure and increase export sales, so as to enhance profitability.

Regarding tissue paper business, the Group, committed to research and development and production of high-quality and environmentally-friendly consumer tissue paper, has introduced natural bamboo unbleached tissue to the market caring about environmental protection and health. That agrees with the Group's business philosophy of pursuing high quality and green development. As at 30 June 2024, the Group's total annual production capacity of tissue paper was approximately 1.1 million tons. With the mainland economy gradually recovering and the traditional consumption peak seasons being in the second half year, demand for tissue paper is expected to increase steadily. The Group will actively identify changes in consumer preferences and realize fully the advantages of its industrial chain to promote the long-term development of its tissue paper business.

On top of striving to grow its core business, the Group has taken the initiative to shoulder the corporate responsibility of fostering green development. Via recycling waste paper and employing advanced production technologies, it has achieved the goals of saving energy and reducing emissions. It has also continued to develop and launch various environmentally-friendly products to promote sustainable development of the environment and society. Looking ahead, with the production capacity release peak near its end and as the economy revives plus market demand rebounds, the paper manufacturing industry can expect to see the turning point of supply and demand returning to balance. That will gradually buttress growth of the industry. The Group will actively seize business opportunities as the industry cycle turns for the better, speed up introducing diverse products and integration of its industrial chain, push to optimize operational efficiency and explore business opportunities in Mainland China and in the international market, to the ends of maintaining steady profit growth and promoting long-term development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue, the profit for the period and the profit for the period attributable to owners of the Company, ordinary shareholders for the six months ended 30 June 2024 were HK\$12,505 million, HK\$806 million and HK\$760 million, respectively and that for the corresponding period last year were HK\$12,207 million, HK\$361 million and HK\$308 million, respectively. The earnings per share for the period was HK17.69 cents as compared to HK7.15 cents for the corresponding period last year.

Profit for the six months ended 30 June 2024 increased mainly due to the Group's active promotion of industrial chain integration over the years which allows the Group to flexibly deploy the supply of raw materials and to embody the strengths brought by its business model.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$306 million for the six months ended 30 June 2024 as compared to HK\$302 million for the corresponding period last year. It represented about 2.4% of the revenue for the six months ended 30 June 2024 and was comparable to that of 2.5% for the corresponding period last year.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$605 million for the six months ended 30 June 2024 as compared to HK\$542 million for the corresponding period last year. It represented about 4.8% of the revenue for the six months ended 30 June 2024 and was increased as compared to that of 4.4% for the corresponding period last year.

Finance Costs

The Group's total finance costs (including the interest on lease liabilities and amount capitalised) was HK\$462 million for the six months ended 30 June 2024 as compared to HK\$358 million for the corresponding period last year. The increase was mainly due to the increase in both borrowing amounts and average interest rate on bank borrowings during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 54 days and 19 days, respectively, for the six months ended 30 June 2024 as compared to 66 days and 17 days, respectively, for the year ended 31 December 2023.

The Group's debtors' turnover day was 46 days for six months ended 30 June 2024 as compared to 42 days for the year ended 31 December 2023. This is in line with the credit terms granted by the Group to its customers.

The Group's creditors' turnover days were 41 days for the six months ended 30 June 2024 as compared to 38 days for the year ended 31 December 2023.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group (comprising of the Group's ordinary share capital, perpetual capital securities, reserves and non-controlling interests) as at 30 June 2024 was HK\$27,305 million (31 December 2023: HK\$28,767 million). As at 30 June 2024, the Group had current assets of HK\$13,210 million (31 December 2023: HK\$13,141 million) and current liabilities of HK\$11,885 million (31 December 2023: HK\$11,436 million). The current ratio was 1.11 as at 30 June 2024 as compared to 1.15 at 31 December 2023.

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 2024, the Group had outstanding bank borrowings of HK\$21,957 million (31 December 2023: HK\$19,293 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 June 2024, the Group maintained bank balances and cash of HK\$1,746 million (31 December 2023: HK\$1,517 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.62 as at 31 December 2023 to 0.74 as at 30 June 2024 as the result of the expansion of the Group and redemption of the perpetual capital securities during the six months ended 30 June 2024.

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 2024. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

EMPLOYEES

As at 30 June 2024, the Group had a workforce of more than 10,000 employees. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Group.

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.062 (2023: HK\$0.025) per share for the six months ended 30 June 2024 to shareholders whose names appear on the Register of Members on 21 August 2024. It is expected that the interim dividend will be paid around 5 September 2024.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 16 August 2024 to 21 August 2024, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accomplished by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 pm on 15 August 2024.

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

During the six months ended 30 June 2024, the Company repurchased a total of 13,808,000 shares of HK\$0.025 per share through the Stock Exchange at an aggregate consideration of approximately HK\$28,839,000 (including transaction costs). All of the shares repurchased were cancelled during the period. Details of shares repurchased during the period are set out as follows:

Month	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	12,887,000	2.10	2.00	26,803
February	600,000	2.09	2.07	1,295
June	321,000	2.30	2.30	741
	<u>13,808,000</u>			<u>28,839</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 and the redemption of the Company's perpetual capital securities as disclosed in note 15 to the unaudited condensed consolidated results, during the six months ended 30 June 2024, there were no other 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 C3 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 2024. 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 provisions on Corporate Governance Practices as set out in part 2 of Appendix C1 of the Listing Rules throughout the six months ended 30 June 2024.

AUDIT COMMITTEE

The Audit Committee of the Company comprised of three independent non-executive directors namely, Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan, Ronald.

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 2024.

On behalf of the Board
Lee Man Chun Raymond
Chairman

Hong Kong, 1 August 2024

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun, Mr. Li King Wai Ross, Mr. Lee Jude Ho Chung and Mr. Yip Heong Kan and three independent non-executive directors, namely Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan, Ronald.