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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 2021**

FINANCIAL HIGHLIGHTS

- Revenue for the year of HK\$32,511 million (2020: HK\$25,868 million);
- Net profit for the year of HK\$3,252 million (2020: HK\$3,653 million);
- Net profit per ton about HK\$513 for the year;
- Stable payout ratio of about 36%, with proposed final dividend of HK11 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 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	32,511,417	25,867,966
Cost of sales		(26,808,481)	(20,120,028)
Gross profit		5,702,936	5,747,938
Other income	4	828,456	823,685
Impairment losses on trade receivables, net of reversal		(15,834)	59,961
Other gains and losses, net	5	(71,655)	(249,474)
Distribution and selling expenses		(1,008,791)	(717,620)
General and administrative expenses		(1,564,265)	(1,163,729)
Share of result of a joint venture		(1,175)	(8,772)
Finance costs	6	(75,389)	(170,517)
Profit before tax		3,794,283	4,321,472
Income tax expense	7	(542,523)	(668,960)
Profit for the year	8	3,251,760	3,652,512
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		1,044,715	2,319,219
Total comprehensive income for the year		4,296,475	5,971,731

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Profit (loss) for the year attributable to:			
Owners of the Company:			
– Ordinary shareholders		3,122,838	3,523,823
– Perpetual capital securities holders		128,409	128,707
Non-controlling interests		513	(18)
		<u>3,251,760</u>	<u>3,652,512</u>
 Total comprehensive income (expense) attributable to:			
Owners of the Company:			
– Ordinary shareholders		4,167,593	5,843,107
– Perpetual capital securities holders		128,409	128,707
Non-controlling interests		473	(83)
		<u>4,296,475</u>	<u>5,971,731</u>
		<i>HK cents</i>	<i>HK cents</i>
 Earnings per share	 <i>10</i>	 <u>71.87</u>	 <u>80.99</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	33,905,307	31,890,840
Right-of use-assets	<i>11</i>	1,122,222	1,120,714
Investment properties		605,591	596,563
Deposits paid for acquisition of property, plant and equipment		1,727,166	1,030,661
Interest in a joint venture		90,858	87,771
Loan to a joint venture		–	71,376
		37,451,144	34,797,925
CURRENT ASSETS			
Inventories	<i>12</i>	5,705,396	4,350,064
Loan to a joint venture		80,554	–
Trade and other receivables and prepayments	<i>13</i>	7,219,054	6,368,191
Amounts due from related companies		88,882	99,390
Bank balances and cash		1,908,813	1,184,921
		15,002,699	12,002,566
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	3,109,636	2,630,527
Amounts due to related companies		10,680	16,056
Tax payable		179,817	252,605
Lease liabilities		14,010	17,518
Contract liabilities		77,657	108,948
Advances drawn on bills discounted with recourse		123,903	303,934
Bank borrowings		8,674,747	5,255,174
		12,190,450	8,584,762
NET CURRENT ASSETS		2,812,249	3,417,804
TOTAL ASSETS LESS CURRENT LIABILITIES		40,263,393	38,215,729

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Bank borrowings		5,386,012	6,071,631
Lease liabilities		53,032	56,383
Deferred tax liabilities		1,421,351	1,337,300
		<u>6,860,395</u>	<u>7,465,314</u>
		<u>33,402,998</u>	<u>30,750,415</u>
CAPITAL AND RESERVES			
Share capital		108,291	108,666
Reserves		30,963,891	28,311,406
		<u>31,072,182</u>	<u>28,420,072</u>
Perpetual capital securities	<i>15</i>	<u>2,322,814</u>	<u>2,322,814</u>
Equity attributable to owners of the Company		33,394,996	30,742,886
Non-controlling interests		8,002	7,529
		<u>33,402,998</u>	<u>30,750,415</u>

NOTES:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements of the Group 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.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group applied the agenda decisions of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* (“HKFRS 7”).

As at 1 January 2021, the Group’ variable-rate bank borrowings indexed to Hong Kong Interbank Offered Rate will continue to maturity.

The amendments have had no impact on the Group’s consolidated financial statements.

Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group’s accounting policy prior to the Committee’s agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee’s agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and carriage outward charges. The new accounting policy has been applied retrospectively.

The application of the Committee’s agenda decision has had no material impact on the Group’s financial positions and performance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

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

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

As at 31 December 2021, the Group's right to defer settlement for borrowings of HK\$5,386,012,000 are subject to compliance with certain financial ratios within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such ratios at 31 December 2021. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess the potential impacts of the amendments in relation to the borrowings with financial and other covenants. The impacts on application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

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

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

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

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* (“HKAS 12”) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

It is the Group's accounting policies for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK\$69,337,000 and HK\$66,296,000 respectively.

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) Tissue paper; and
- (iii) Pulp.

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 2021

	Packaging paper <i>HK\$'000</i>	Tissue Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	27,552,928	4,730,160	228,329	32,511,417	–	32,511,417
Inter-segment sales	–	–	1,067,611	1,067,611	(1,067,611)	–
	<u>27,552,928</u>	<u>4,730,160</u>	<u>1,295,940</u>	<u>33,579,028</u>	<u>(1,067,611)</u>	<u>32,511,417</u>
SEGMENT PROFIT	<u>3,481,329</u>	<u>334,130</u>	<u>7,516</u>	<u>3,822,975</u>	<u>–</u>	<u>3,822,975</u>
Net loss from fair value changes of derivative financial instruments						(35)
Unallocated income						99,334
Unallocated expenses and net exchange losses						(51,427)
Share of result of a joint venture						(1,175)
Finance costs						<u>(75,389)</u>
Profit before tax						<u>3,794,283</u>

Year ended 31 December 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	21,517,453	4,316,881	33,632	25,867,966	–	25,867,966
Inter-segment sales	–	–	795,202	795,202	(795,202)	–
	<u>21,517,453</u>	<u>4,316,881</u>	<u>828,834</u>	<u>26,663,168</u>	<u>(795,202)</u>	<u>25,867,966</u>
SEGMENT PROFIT	<u>4,166,032</u>	<u>513,188</u>	<u>3,006</u>	<u>4,682,226</u>	<u>–</u>	<u>4,682,226</u>
Net gain from fair value changes of derivative financial instruments						4,851
Unallocated income						149,128
Unallocated expenses and net exchange losses						(335,444)
Share of result of a joint venture						(8,772)
Finance costs						<u>(170,517)</u>
Profit before tax						<u>4,321,472</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 (loss) gain from fair value changes of derivative financial instruments, rental income, interest income, net foreign exchange losses, share of result of a joint venture, 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 2021

	Packaging paper HK\$'000	Tissue Paper HK\$'000	Pulp HK\$'000	Consolidated HK\$'000
Segment assets	40,410,980	8,240,520	1,893,530	50,545,030
Unallocated asset				<u>1,908,813</u>
Consolidated total assets				<u>52,453,843</u>
Segment liabilities	1,609,974	186,328	32,311	1,828,613
Unallocated liabilities				<u>17,222,232</u>
Consolidated total liabilities				<u>19,050,845</u>

As at 31 December 2020

	Packaging paper <i>HK\$'000</i>	Tissue Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	35,988,909	7,802,914	1,823,747	45,615,570
Unallocated asset				<u>1,184,921</u>
Consolidated total assets				<u>46,800,491</u>
Segment liabilities	1,217,394	416,833	19,866	1,654,093
Unallocated liabilities				<u>14,395,983</u>
Consolidated total liabilities				<u>16,050,076</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 all liabilities are allocated to operating segments other than tax payable, bank borrowings, advances drawn on bills receivables discounted with recourse, deferred tax liabilities, construction fee payables, other payables and accruals.

Revenue from major products

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Packaging paper (including linerboard and corrugating medium)	27,552,928	21,517,453
Tissue paper	4,730,160	4,316,881
Pulp	<u>228,329</u>	<u>33,632</u>
	<u>32,511,417</u>	<u>25,867,966</u>

Geographical information

Approximately 92% (2020: approximately 98%) of the Group's revenue were derived from external customers in the PRC. The remaining of the Group's revenue were mainly derived from external customers in Malaysia and Vietnam.

Information about the Group's non-current assets (excluding financial assets) is presented based on the geographical location of the assets.

	Non-current assets	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
The PRC other than Hong Kong and Macau	28,348,644	27,349,921
Malaysia	5,774,858	4,713,285
Vietnam	2,413,625	2,393,838
Hong Kong, Macau and others	<u>914,017</u>	<u>269,505</u>
	<u>37,451,144</u>	<u>34,726,549</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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Value added tax and other tax refund	544,666	435,118
Income from supply of steam and electricity, net	42,842	62,083
Income from wharf cargo handling, net	37,901	21,990
Interest income from banks	30,726	34,506
Others	172,321	269,988
	<u>828,456</u>	<u>823,685</u>

5. OTHER GAINS AND LOSSES, NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net foreign exchange losses	(14,543)	(249,315)
Net (loss)/gain from fair value changes of derivative financial instruments	(35)	4,851
Loss on disposal of property, plant and equipment, net	(78,341)	(5,010)
Gain on disposal of a subsidiary	21,264	–
	<u>(71,655)</u>	<u>(249,474)</u>

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest expense on lease liabilities	3,192	2,836
Interest on bank borrowings and advances drawn on bills discounted with recourse	189,054	311,545
Less: amounts capitalised to property, plant and equipment	(116,857)	(143,864)
	<u>75,389</u>	<u>170,517</u>

Borrowing costs capitalised during the year arose from the general borrowings and are calculated by applying a capitalisation rate ranging from 1.17% to 1.66% (2020: ranging from 1.92% to 3.78%) per annum to expenditures on qualifying assets.

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Income tax recognised in profit or loss:		
Current tax		
– The PRC Enterprise Income Tax (“EIT”)	359,107	564,543
– PRC withholding tax on dividend distribution	30,694	201,225
– Other jurisdictions	78,618	–
	<u>468,419</u>	<u>765,768</u>
Over provision in previous years		
– The PRC EIT	(8,257)	(1,967)
Deferred tax		
– Charge (credit) to profit or loss	82,361	(94,841)
	<u>542,523</u>	<u>668,960</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% (2020: 25%) except that six (2020: six) of these subsidiaries are entitled to preferential rate of 15% (2020: 15%) for the Group’s financial year ended 31 December 2021.

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Macau

During the year, Macau Complementary Tax are calculated at 12% on the estimated assessable profits. For year ended 31 December 2020, 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% during the year ended 31 December 2021. 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 year ended 31 December 2020 as the Vietnam subsidiaries entitled tax exemption for that year.

Malaysia

The Malaysia subsidiaries are subjected to Malaysia Corporate Income Tax at a rate of 24% during the year ended 31 December 2021. No provision for Malaysia Corporate Income Tax has been made for year ended 31 December 2020 as the Malaysia subsidiaries did not have assessable profits subject to Malaysia Corporate Income Tax during that year.

Others jurisdictions

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

8. PROFIT FOR THE YEAR

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	47,050	41,725
Staff salaries and other benefits, excluding those of directors	1,584,427	1,192,593
Contributions to retirement benefit schemes, excluding those of directors	136,674	68,596
	<u>1,768,151</u>	<u>1,302,914</u>
Total employee benefit expense	1,768,151	1,302,914
Capitalised in inventories	(1,235,846)	(877,613)
	<u>532,305</u>	<u>425,301</u>
Auditor's remuneration		
– Audit services	9,839	9,119
– Non-audit services	1,812	1,931
Cost of inventories recognised as expense	26,808,481	20,120,028
Depreciation of property, plant and equipment	1,486,381	1,307,308
Depreciation of investment properties	24,818	22,646
Depreciation of right-of-use assets	39,122	35,122
	<u>1,550,321</u>	<u>1,365,076</u>
Total depreciation and amortisation	1,550,321	1,365,076
Capitalised in inventories	(1,385,070)	(1,193,627)
	<u>165,251</u>	<u>171,449</u>
Gross rental income from investment properties	(34,833)	(30,744)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	378	366
	<u>(34,455)</u>	<u>(30,378)</u>

9. DIVIDENDS/DISTRIBUTION TO PERPETUAL CAPITAL SECURITIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Dividends recognised as distribution to ordinary shareholders:		
Final dividend of HK\$0.18 in respect of the year ended 31 December 2020 (2020: final dividend of HK\$0.13 in respect of the year ended 31 December 2019) per ordinary share	782,396	565,063
Interim dividend of HK\$0.15 in respect of the year ended 31 December 2021 (2020: interim dividend of HK\$0.12 in respect of the year ended 31 December 2020) per ordinary share	651,996	521,598
	<u>1,434,392</u>	<u>1,086,661</u>

A final dividend of HK\$0.11 per ordinary share in respect of the year ended 31 December 2021 (2020: final dividend of HK\$0.18 per ordinary share in respect of the year ended 31 December 2020) has been proposed by the directors of the Company 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\$128,409,000 (2020: HK\$128,707,000) to the securities holders during the year ended 31 December 2021.

10. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year attributable to owners of the Company, ordinary shareholders of HK\$3,122,838,000 (2020: HK\$3,523,823,000) and weighted average number of 4,345,151,304 (2020: 4,350,762,262) ordinary 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\$3,093 million (2020: HK\$3,511 million) to property, plant and equipment to expand its operations.

During the year, the Group entered into leases for certain of its staff quarters and office premises for 1 year to 19 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognises HK\$26,118,000 (2020: HK\$72,237,000) of right-of-use assets and HK\$12,968,000 (2020: HK\$29,234,000) of lease liabilities.

12. INVENTORIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Raw materials	3,835,648	3,427,090
Finished goods	1,869,748	922,974
	<u>5,705,396</u>	<u>4,350,064</u>

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

Included in trade and other receivables and prepayments are trade receivables amounting to HK\$4,658,694,000 (2020: HK\$4,493,128,000).

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
Not exceeding 30 days	2,484,000	2,295,207
31–60 days	815,845	639,587
61–90 days	145,587	97,206
91–120 days	36,425	58,014
Over 120 days	130,504	135,905
	<u>3,612,361</u>	<u>3,225,919</u>

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$1,673,234,000 (2020: HK\$1,455,188,000).

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.

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
Not exceeding 30 days	926,901	644,824
31–60 days	279,882	290,524
61–90 days	235,635	252,961
91–120 days	190,296	118,145
Over 120 days	40,520	148,734
	<u>1,673,234</u>	<u>1,455,188</u>

15. PERPETUAL CAPITAL SECURITIES

On 29 May 2019, the Company (the “Issuer”) issued USD300 million perpetual capital 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. 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, reduce, cancel, buy-back or otherwise acquire any securities of lower rank.

FINAL DIVIDEND

The Directors have proposed a final dividend of HK11 cents (2020: HK18 cents) per share for the year ended 31 December 2021 to shareholders whose names appear on the Register of Members on 23 May 2022. 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 2 June 2022.

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 12 May 2022. For ascertaining shareholders’ right to attend and vote at the AGM, the register of members of the Company will be closed from 6 May 2022 to 12 May 2022, 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 5 May 2022.

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 HK11 cents per share in cash for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company on 23 May 2022 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 18 May 2022 to 23 May 2022, 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 17 May 2022.

BUSINESS REVIEW AND OUTLOOK

Business Review and Outlook

In 2021, the novel coronavirus pandemic situation remained unstable and a new variant of the virus brought further uncertainties to global economic recovery. Major economies around the world had announced substantial fiscal stimulus packages and launched vaccination programs to aid economic recovery. However, the ongoing political tensions between the US and PRC governments, rising energy prices and intensifying inflationary pressures all meant that enterprises still faced challenges that could impact their business and operations.

China remained a global leader in pandemic prevention and control, with stable economic growth and recovering consumer confidence. For 2021, the Group recorded total revenue of HK\$32.5 billion, representing an increase of 25.7% from that of the previous year, while the profit for the year decreased by 11.0% to HK\$3.25 billion as a result of rising costs, and net profit attributable to owners of the Company, ordinary shareholders for the year was HK\$3.12 billion. The earnings per share for the year were HK71.87 cents (2020: HK80.99 cents).

The board of directors has proposed a final dividend of HK11 cents per share for 2021 (2020: HK18 cents). The Group's aggregate sales for the year amounted to 6.34 million tons, while its net profit per ton was HK\$513.

Industry and Business Review

In 2021, the “waste ban” was fully implemented in Mainland China, resulting in a ban on the import of waste paper. As a result, waste paper, as a raw material, has been in tight supply and pulp prices continued to rise. In addition, the restricted international shipping capacity has caused a supply chain bottleneck and transportation costs have skyrocketed as a result. After the National Development and Reform Commission published the “Proposal for Modifying the Mechanism of Dual Control of Energy Consumption Intensity and Volume (《完善能源消費強度和總量雙控制度方案》)”, various local governments imposed restrictions on power supply and production activity, resulting in a surge in energy prices which in turn led to a sharp rise in paper manufacturing costs. In the face of changes in market supply and demand and government policies, the Group actively strengthened its foothold in order to respond to the situation. The Group has continued to consolidate upstream resources and develop a vertical business model covering pulp-manufacturing 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 businesses, creating more opportunities for growth in its results.

Business Prospects

In 2022, Mainland China's economy is expected to see steady growth amid the ongoing epidemic control and international disputes, and this, coupled with robust consumption, and the implementation of various environmental protection policies, will play a positive role in the development of the paper manufacturing industry. The Group will continue to optimize its industrial chain so as to diversify its paper and pulp business, further improve operational stability and strengthen its profit base. The Group has supported the "Belt and Road" initiative by targeting the Southeast Asian market, expanding its presence into international markets and making good use of local resources to optimize its operating efficiency. It has already added new production capacity or established production factories in countries such as Vietnam, Malaysia and Indonesia, and will continue to seek business opportunities in Belt and Road countries and cities in the future. The Group is confident in the long-term development of the of the paper manufacturing industry in the region.

Packaging paper remains the Group's core business. In the wake of the pandemic, online shopping has become more commonplace, which has driven up the demand for packaging paper. In addition, the plastic restriction order implemented by the Chinese government has led to a trend of using paper packaging instead of plastic, which has in turn driven the demand for packaging paper. The Group is actively expanding its recycled pulp business and the coverage and diversification of its production capacity with the aim of sustainably enhancing the Group's profitability. The second paper-making machine in the Malaysian plant was put into production in April 2021 with an annual capacity of 350,000 tons. The Group also completed the acquisition of an enterprise in Cambodia and the project is currently in the early stages of coordinating the land acquisition and plant construction. In addition, the Group plans to add semi-chemical pulp production lines at its plants in Jiangxi province and Chongqing, respectively, in order to increase the supply of virgin fiber pulp for packaging paper.

Regarding the tissue paper business, the market demand for consumer tissue is increasing thanks to the growing economy, the increase of per capita disposable income and the pandemic, which has increased hygiene awareness among the public. The Group considers the consumer tissue business as its major focus and has, therefore, 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 needs for health and environmental protection as well as consumption requirements. The Group will expand its capacity in line with market and customer demand, and will add new production lines for consumer tissue paper at its Jiangxi plant. The total annual production capacity of consumer tissue paper has now reached 900,000 tons.

The Group is committed to providing quality products at reasonable price while also fulfilling its corporate social responsibility by reducing pollution and carbon emissions through waste paper recycling and advanced production technologies, thereby bringing more environmentally friendly products to customers. In the long term, the paper manufacturing industry still has tremendous room for development. The Group will seize opportunities to expand its market scale and maintain its competitiveness in the paper manufacturing industry.

Conclusion

The Group would like to express its sincere gratitude to its employees and shareholders for their continued support. Leveraging its leading position in the paper manufacturing industry and its consistently solid development advantages, the Group intends to further enhance its profitability and create greater benefits for shareholders, employees and society.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company, ordinary shareholders for the year ended 31 December 2021 was HK\$32.5 billion and HK\$3.12 billion respectively, while its net profit per tonne was HK\$513.

The earnings per share for the year was HK71.87 cents when compared with HK80.99 cents for the year ended 31 December 2020.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK\$1,009 million for the year ended 31 December 2021 as compared to HK\$718 million for the year ended 31 December 2020. It represented about 3.1% of the revenue for the year ended 31 December 2021 and was increased as compared to about 2.8% for the year ended 31 December 2020.

General and Administrative Expenses

The Group's general and administrative expenses was HK\$1,564 million for the year ended 31 December 2021 as compared to HK\$1,164 million for the year ended 31 December 2020. It represented about 4.8% of the revenue for the year ended 31 December 2021 and was increased as compared to that of 4.5% for the year ended 31 December 2020.

Finance Costs

The Group's total finance costs (including the amounts capitalised) was HK\$192 million for the year ended 31 December 2021 as compared to HK\$314 million for the year ended 31 December 2020. The decrease was mainly due to the decrease 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 59 days and 17 days, respectively, for the year ended 31 December 2021 as compared to 71 days and 10 days, respectively, for the year ended 31 December 2020.

The Group's debtors' turnover days were 41 days for the year ended 31 December 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 26 days for the year ended 31 December 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 (comprising of the Group's ordinary share capital, perpetual capital securities, reserves and non-controlling interests) as at 31 December 2021 was HK\$33,403 million (2020: HK\$30,750 million). As at 31 December 2021, the Group had current assets of HK\$15,003 million (2020: HK\$12,003 million) and current liabilities of HK\$12,190 million (2020: HK\$8,585 million). The current ratio was 1.23 as at 31 December 2021 as compared to 1.40 at 31 December 2020.

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 2021, the Group had outstanding bank borrowings of HK\$14,061 million (2020: HK\$11,327 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 31 December 2021, the Group maintained bank balances and cash of HK\$1,909 million (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 0.36 as at 31 December 2021.

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 year ended 31 December 2021. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

Employees

As at 31 December 2021, the Group had a workforce of more than 11,000 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 14,983,000 shares of HK\$0.025 per share through the Stock Exchange at an aggregate consideration of approximately HK\$81,091,000 (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 HK\$	Lowest price paid per share HK\$	Aggregate consideration paid (including expenses) HK\$'000
October	1,018,000	5.49	5.41	5,580
November	7,965,000	5.46	5.33	43,135
December	6,000,000	5.39	5.32	32,376
	<u>14,983,000</u>			<u>81,091</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 2021, 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 2021. 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 2021 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 12 May 2022. 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, 7 March 2022

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