理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2314)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

FINANCIAL HIGHLIGHTS
- — Turnover increased by 49% to HK$1,869 million
- — Profit attributable to shareholders increased by 59% to HK$309 million
- — Earnings per share increased by 58% to HK32.11 cents

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 September 2005 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2005

	Notes	**2005 (unaudited) *HK$'000***	2004 (unaudited) *HK$'000*
Turnover	2	**1,869,320**	1,257,701
Cost of sales		**(1,489,600)**	(988,001)
Gross profit		**379,720**	269,700
Other operating income		**43,136**	3,114
Distribution costs		**(29,153)**	(21,961)
Administrative expenses		**(60,877)**	(49,699)
Profit from operations	3	**332,826**	201,154
Interest on bank borrowings wholly repayable within five years		**(19,321)**	(4,036)
Profit before taxation		**313,505**	197,118
Taxation	4	**(4,155)**	(2,830)
Profit for the period		**309,350**	194,288
Interim Dividend		**—**	—
Earnings per share	5		
— Basic		**32.11 cents**	20.31 cents
— Diluted		**31.99 cents**	20.22 cents

Notes:

1. **Basis of preparation and principal accounting policies**

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

In 2005, the Group adopted the new/revised HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS1	Presentation of Financial Statements
HKAS2	Inventories
HKAS7	Cash Flow Statements
HKAS8	Accounting Policies, changes in Accounting Estimates and Errors
HKAS16	Property, Plant and Equipment
HKAS17	Leases
HKAS21	The effects of Changes in Foreign Exchange Rates
HKAS24	Related Party Disclosures
HKAS33	Earnings per share
HKAS36	Impairment of Assets
HKFRS2	Share-based Payment

The adoption of these new HKFRSs did not have a material effect on how the results of operations and financial position of the Group are prepared and presented.

2. **Segments information**

Business segments

	Turnover Six months ended 30 September **2005** *HK$'000*	2004 *HK$'000*	Contribution to profit from operations Six months ended 30 September **2005** *HK$'000*	2004 *HK$'000*
Manufacture and sales of paper	**1,651,333**	1,257,701	**315,397**	200,968
Manufacture and sales of pulp	**217,987**	—	**17,018**	—
	1,869,320	1,257,701	**332,415**	200,968
Interest Income			**411**	186
Interest on bank borrowings wholly repayable within five years			**(19,321)**	(4,036)
Profit before taxation			**313,505**	197,118
Taxation			**(4,155)**	(2,830)
Profit attributable to shareholder			**309,350**	194,288

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market Six months ended 30 September ***2005*** ***HK$'000***	*2004* *HK$'000*	Contribution to profit from operations Six months ended 30 September ***2005*** ***HK$'000***	*2004* *HK$'000*
People's Republic of China other than Hong Kong (the "PRC")	**978,676**	586,163	**186,923**	93,663
Export sales delivered in the PRC *(Note)*	**672,657**	613,040	**128,474**	97,958
Others	**217,987**	58,498	**17,018**	9,347
	1,869,320	1,257,701	**332,415**	200,968
Interest Income			**411**	186
Interest on bank borrowings wholly repayable within five years			**(19,321)**	(4,036)
Profit before taxation			**313,505**	197,118
Taxation			**(4,155)**	(2,830)
Profit attributable to shareholder			**309,350**	194,288

Note: These are sales to PRC customers who ultimately export the goods outside the PRC.

3. **Profit from operations**

	Six months ended 30 September **2005** ***HK$'000***	2004 *HK$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments	**1,914**	1,140
Other staff costs	**96,806**	26,490
Retirement benefits scheme contributions	**1,174**	518
Total staff costs	**99,894**	28,148
Depreciation and amortization	**47,908**	35,634
Exchange gain	**33,092**	1,832
Loss on write-off of property, plant and equipment	**—**	7,312
Operating lease rentals in respect of land and buildings	**6,345**	522

4. **Taxation**

	Six months ended 30 September **2005** ***HK$'000***	2004 *HK$'000*
The charge comprises:		
PRC Foreign Enterprise Income Tax	**5,328**	2,830
Deferred taxation	**(1,173)**	—
	4,155	2,830

The Group's profit is subject to taxation from the place of its operations where its profit is generated. Taxation is calculated at the rates prevailing in the relevant jurisdictions as set out below.

The subsidiaries in the PRC are entitled to exemption from PRC Foreign Enterprise Income Tax for the two years starting from its first profit-making year, followed by a 50% relief for the three years thereafter. The taxation charge represents the PRC Foreign Enterprise Income Tax after taking into account the relevant tax incentives.

The subsidiary in Malaysia carries on offshore trading activities in Labuan, Malaysia, in a currency other than the Malaysian currency with other group companies which are non-residents of Malaysia. The tax rate for offshore trading companies in Labuan is charged at a fixed annual rate of Malaysian RM20,000.

Under Decree-Law No. 58/99/M, a Macau company incorporated under the Law (called "58/99/M Company") is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company.

In the opinion of the directors, the Group is not subject to taxation in any other jurisdictions in which the Group operates.

The deferred taxation credit represents deferred tax asset resulted from tax losses of a subsidiary in the United States of America recognized during the period.

5. **Earnings per share**

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended 30 September **2005** ***HK$'000***	2004 *HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**309,350**	194,288
	Number of shares	Number of shares
Weighted average number of share for the purpose of basic earnings per share	**963,384,000**	956,612,765
Potential dilutive effect arising from share options	**3,668,607**	4,374,933
Weighted average number of share for the purpose of diluted earnings per share	**967,052,607**	960,987,698

BUSINESS REVIEW AND OUTLOOK

For the first six months of 2005/2006, the group achieved a turnover of HK$1,869 million and has recorded a net profit of HK$309 million. This represents an increase in turnover of 49% and an increase in net profit of 59% over the same period last year. The Group achieves this growth through hard work from all our employees. In addition, our pulp mill is now running at full capacity, succeeding in both lowering our existing paper production costs and generating extra income on external sales. Now, all six of our paper production lines (PM1 to PM6) and our pulp mill, with an annual paper capacity of 1,200,000MT and an annual pulp capacity of 200,000MT, are running at full capacity.

Later this year, we will be starting our seventh production line (PM7) at Dongguan Hongmei. This production line has an annual capacity of 400,000MT and is expected to make profitable contributions for the years to come.

China is clearly becoming the most important manufacturing base of the world. In particular, we feel optimistic about the growth of the manufacturing activities in the Yangtze River Delta. To serve this market, we will be starting our eighth production line (PM8) at Changshu, with an annual capacity of 450,000MT, before the end of 2006. With this expansion, the Group's annual paper capacity will reach 2,000,000MT, and the Group will further solidify its leadership position in the containerboard market.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30 September 2005 was HK$1,869 million and HK$309 million respectively, representing an increase of 49% and 59%, as compared to HK$1,258 million and HK$194 million, for the corresponding period last year. The earnings per share for the period was HK32.11 cents as compared to HK20.31 cents for the corresponding period last year.

The increase in turnover and net profit were mainly attributable to the significant increase in the Group's sales of containerboard due to the full period commercial operation of the paper machine VI in September 2004.

Distribution costs and administrative expenses

The Group's distribution costs and administrative expenses increased by approximately 33% and 22% from HK$22.0 million and HK$49.7 million for the six months ended 30 September 2004 to HK$29.2 million and HK$60.9 million for the six months ended 30 September 2005 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period.

Interest expenses

The Group's interest expenses increased by approximately 379% from HK$4.0 million for the six months ended 30 September 2004 to HK$19.3 million for the six months ended 30 September 2005. The increase was mainly due to the increase in average amount of outstanding bank loans during the period.

Inventories, debtors' and creditors' turnover

The inventory turnover of the Group's raw materials and finished products decreased from 85 days and 12 days, respectively, for the year ended 31 March 2005 to 71 days and 5 days, respectively, for the six months ended 30 September 2005. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 64 days for the six months ended 30 September 2005 as compared to 66 days for the year ended 31 March 2005. This is in line with the credit terms of 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days were 17 days for the six months ended 30 September 2005 as compared to 16 days for the year ended 31 March 2005.

Liquidity, financial resources and capital structure

The total shareholders' fund of the Group as at 30 September 2005 was HK$3,199 million (31 March 2005: HK$3,041 million). As at 30 September 2005, the Group had current assets of HK$1,426 million (31 March 2005: HK$1,372 million) and current liabilities of HK$1,515 million (31 March 2005: HK$921 million). The current ratio was 0.94 as at 30 September 2005 as compared to 1.49 at 31March 2005.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 September 2005, the Group had outstanding bank borrowings of HK$1,358 million (31 March 2005: HK$769 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.23 as at 31 March 2005 to 0.40 as at 30 September 2005.

The Group's liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion.

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or 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 month ended 30 September 2005.

Employees

As at 30 September 2005, the Group had a workforce of more than 2,900 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 Company.

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.

The Group has a Pre-IPO Share Option Scheme whereby employees of the Group are granted options to acquire shares in the Company.

Purchase, sale or redemption of the Company's listed securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Model Code for securities transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all Directors have complied with the required standards set out in the Model Code throughout the six months ended 30 September 2005.

Code on corporate governance practices

In the opinion of the directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2005, with the exception of the following deviations:

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and under A.4.2, every director should be subject to retirement by rotation at least once every three years. Currently, non-executive Directors are not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. Furthermore, under the existing Articles of Association of the Company, the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation. This constitutes a deviation from the code provision A.4.2. To comply with the code provision, relevant amendments to the existing Articles of Association of the Company will be proposed at the next annual general meeting.

Audit Committee

The Audit Committee of the Company comprised of three independent non-executive directors namely, Mr Heng Kwoo Seng, Mr Wong Kai Tung Tony and Ms Law Kar Shui Elizabeth.

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 September 2005.

Remuneration Committee

To comply with the Code, a remuneration committee was established on 28 September 2005 with specific written terms of reference which deal clearly with its authority and duties. The members of the remuneration committee comprises Mr Heng Kwoo Seng, Mr Wong Kai Tung Tony and Ms Law Kar Shui Elizabeth. All members of the remuneration committee are independent non-executive directors.

On behalf of the Board
Lee Wan Keung Patrick
Chairman

Hong Kong, 7 November 2005

As at the date of this notice, the board of directors of the Company comprises five executive directors, namely Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond, Mr Lee Man Bun, Mr Li King Wai Ross and Mr Tan Siak Him Alexander, one non-executive director, namely Professor Poon Chung Kwong and three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Heng Kwoo Seng and Ms Law Kar Shui Elizabeth.

* *For identification purposes only*