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 2008

FINANCIAL HIGHLIGHTS

— Turnover increased by 41.0% to HK$5,493 million

— Profit attributable to shareholders decreased by 6.9% to HK$668 million

— Earnings per share decreased by 7.5% to HK58.75 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 2008 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

	Notes	**2008 (unaudited) *HK$'000***	2007 (unaudited) *HK$'000*
Revenue	*2*	**5,492,866**	3,894,469
Cost of sales		**(4,476,592)**	(2,900,799)
Gross profit		**1,016,274**	993,670
Other income		**85,989**	79,691
Net gain (loss) from fair value changes of derivative financial instruments		**5,581**	(5,712)
Distribution and selling expenses		**(148,104)**	(104,806)
Administrative expenses		**(184,932)**	(168,502)
Finance costs	*3*	**(79,212)**	(33,439)
Profit before tax		**695,596**	760,902
Income tax expense	*4*	**(27,767)**	(43,202)
Profit for the period	*5*	**667,829**	717,700

	Notes	**2008** **(unaudited)** ***HK$'000***	2007 (unaudited) *HK$'000*
Attributable to:			
Equity holders of the Company		**668,213**	718,082
Minority interests		**(384)**	(382)
		667,829	717,700
Dividends:	*6*		
— Final dividend paid		**113,738**	227,316
— Interim dividend proposed		**56,869**	181,917
		HK cents	*HK cents*
Earnings per share	*7*		
— Basic		**58.75**	63.52
— Diluted		**58.74**	63.23

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2008

	Notes	30 September 2008 (unaudited) HK$'000	31 March 2008 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**12,049,636**	10,005,464
Prepaid lease payments		**355,781**	323,705
Deposits paid for acquisition of property, plant and equipment and land use rights		**460,777**	918,844
Interests in associates	9	**—**	—
Deferred tax assets		**42,162**	29,796
Retirement benefit assets		**728**	728
		12,909,084	11,278,537
CURRENT ASSETS			
Inventories	10	**2,684,557**	2,499,167
Prepaid lease payments		**5,314**	17,045
Trade and other receivables	11	**2,522,530**	2,727,887
Amounts due from associates		**33,289**	141,936
Amount due from a related company		**—**	6,516
Derivative financial instruments		**8,611**	25,224
Restricted bank deposits		**—**	489
Bank balances and cash		**232,912**	318,188
		5,487,213	5,736,452
CURRENT LIABILITIES			
Derivative financial instruments		**72,856**	192,544
Trade and other payables	12	**1,495,358**	1,391,649
Tax payable		**6,623**	5,452
Bank and other borrowings		**3,342,322**	2,781,310
		4,917,159	4,370,955
NET CURRENT ASSETS		**570,054**	1,365,497
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,479,138**	12,644,034

	Notes	30 September 2008 (unaudited) HK$'000	31 March 2008 (audited) HK$'000
NON-CURRENT LIABILITIES			
Derivative financial instruments		**136,502**	162,307
Bank and other borrowings		**4,175,754**	4,319,534
Deferred tax liabilities		**135,593**	108,470
Retirement benefit liabilities		**20,584**	19,414
		4,468,433	4,609,725
		9,010,705	8,034,309
CAPITAL AND RESERVES			
Share capital		**113,738**	113,738
Reserves		**8,909,217**	7,930,873
Equity attributable to equity holders of the Company		**9,022,955**	8,044,611
Minority interests		**(12,250)**	(10,302)
Total equity		**9,010,705**	8,034,309

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited 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 condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 April 2008. The applicable new HKFRSs adopted in this interim financial statements are set out below:

HK(IFRIC)-Int 12	Service Concession Arrangements[1]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[1]

[1] Effective for annual periods beginning on or after 1 January 2008

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. SEGMENTS INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating businesses — manufacture and sales of paper, and manufacture and sales of pulp. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2008
Consolidated income statement

	Paper	**Pulp**	**Eliminations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE				
External sales	**5,200,082**	**292,784**	**—**	**5,492,866**
Inter-segment sales	**—**	**107,347**	**(107,347)**	**—**
	5,200,082	**400,131**	**(107,347)**	**5,492,866**
SEGMENT RESULTS	**795,208**	**(27,844)**	**—**	**767,364**
Net gain from fair value changes of derivative financial instruments				**5,581**
Unallocated corporate incomes				**3,678**
Unallocated corporate expenses				**(1,815)**
Finance costs				**(79,212)**
Profit before tax				**695,596**
Income tax expense				**(27,767)**
Profit for the period				**667,829**

2007

Consolidated income statement

	Paper	Pulp	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	3,606,017	288,452	—	3,894,469
Inter-segment sales	—	194,482	(194,482)	—
	3,606,017	482,934	(194,482)	3,894,469
SEGMENT RESULTS	754,546	43,565	—	798,111
Net loss from fair value changes of derivative financial instruments				(5,712)
Unallocated corporate incomes				2,970
Unallocated corporate expenses				(1,028)
Finance costs				(33,439)
Profit before tax				760,902
Income tax expense				(43,202)
Profit for the period				717,700

Geographical segments

The following table provides an analysis of the Group's sales by geographical market based on location of customers, others mainly include countries in Asia other than PRC.

	Sales revenue by geographical market Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
People's Republic of China other than Hong Kong (the "PRC")	**5,171,115**	3,109,572
Europe	**—**	217,318
United States of America	**5,289**	42,049
Others	**316,462**	525,530
	5,492,866	3,894,469

3. FINANCE COSTS

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**145,741**	78,730
Interest on notes payable	**23,422**	2,157
Total borrowing costs	**169,163**	80,887
Less: Amounts capitalised in property, plant and equipment	**(89,951)**	(47,448)
	79,212	33,439

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
— PRC Foreign Enterprise Income Tax	**13,010**	18,768
Deferred taxation in respect of:		
— accelerated tax depreciation	**27,123**	21,970
— tax losses	**(12,366)**	2,464
	27,767	43,202

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

The subsidiaries in the PRC are entitled to exemption from PRC Foreign Enterprise Income Tax for two years starting from their respective first profit-making year, followed by a 50% relief for the three years thereafter ("Tax Holiday").

The first profit-making year of a subsidiary, Jiangsu Lee & Man Paper Manufacturing Company Limited ("Jiangsu Lee & Man"), was the year of 2005. Accordingly, tax exemption period of Jiangsu Lee & Man expired during the year ended 31 March 2007 and it is now subject to a reduced tax rate of 12.5% for the relief period. Beside, pursuant to approvals granted by the PRC tax authority, Jiangsu Lee & Man was granted tax credits that resulted from the purchase of plant and equipment manufactured in the PRC by Jiangsu Lee & Man. Current period's tax charge of Jiangsu Lee & Man was fully offseted by such credits.

The Tax Holiday of a subsidiary, Dongguan Lee & Man Paper Factory Co., Ltd. ("Dongguan Lee & Man") expired during the year ended 31 March 2006 and it is now subject to a preferential tax rate of 18% because approval was obtained from the PRC tax authority as it was qualified as a technologically advanced enterprise in the Guangdong Province.

All the Group's other PRC subsidiaries were within the tax exemption period during the year ended 31 March 2008 and were therefore not subject to PRC Foreign Income Enterprise Tax.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "Tax Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the Tax Law. The Tax Law and Implementation Regulations will increase the tax rate for the Group's PRC subsidiaries to 25% with effect from the expiry of the Tax Holiday period and in the case of Dongguan Lee & Man, on a progressive basis over a period of five years.

The subsidiary in Malaysia carries on offshore trading activities in Labaun, with other group companies which are non-residents of Malaysia. As such, it is qualified as an offshore trading company in Labaun and is charged at a fixed annual rate of Malaysian RM20,000.

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.

The subsidiary in the United States is subject to Federal Income Tax and California State Income Tax (collectively refer to as "US Income Tax") at rates of 35% and 8.84%, respectively. No provision for US Income Tax has been made for the period as the United States subsidiary incurred losses for the period.

The Vietnam subsidiaries are subjected to Vietnam Corporate Income Tax at a maximum rate of 28%. No provision for Vietnam Corporate Income Tax has been made for the period as the Vietnam subsidiaries incurred losses for the period.

5. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Directors' emoluments	**6,408**	3,636
Staff salaries and other benefits, excluding those of directors	**219,852**	175,141
Contributions to retirement benefit schemes, excluding those of directors	**11,345**	5,036
Total employee benefit expense	**237,605**	183,813
Amortisation of prepaid lease payments	**2,627**	2,322
Cost of inventories recognised as expenses	**4,476,592**	2,900,799
Depreciation of property, plant and equipment	**179,198**	114,024
Loss on disposal of property, plant and equipment	**390**	—
Operating lease rentals in respect of land and buildings	**4,549**	1,512
and after crediting (in other income):		
Interest income	**3,678**	2,970
Income from operating a pier	**18,655**	9,226
Net foreign exchange gains	**42,753**	25,516

6. DIVIDENDS

A final dividend for the year ended 31 March 2008 of HK10 cents (for the year ended 31 March 2007: HK20 cents) per share was paid to shareholders during the current period.

The Directors determined that an interim dividend of HK5 cents per share (2007: HK16 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 7 January 2009.

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Profit for the period attributable to equity holders of the Company	**668,213**	718,082
Effect of dilutive potential ordinary shares:		
— Interest on convertible bonds	**—**	2,157
— Gain on fair value change of derivative embedded in the convertible bonds	**—**	(3)
Earnings for the purpose of diluted earnings per share	**668,213**	720,236
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,137,380,412**	1,130,512,688
Effect of dilutive potential ordinary shares:		
— Share options	**144,797**	2,489,574
— Convertible bonds	**—**	6,074,829
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,137,525,209**	1,139,077,091

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK$852 million (six months ended 30 September 2007: HK$2,010 million) on property, plant and equipment to expand its operations.

9. INTERESTS IN ASSOCIATES

	30 September	31 March
	2008	2008
	HK$'000	*HK$'000*
Cost of unlisted investment	**1**	1
Share of post-acquisition results	**(1)**	(1)
	—	—

The balances with associates are unsecured, interest-free and repayable on demand.

Details of the Group's associates at 30 September 2008 are as follows:

Name of associate	Form of business structure	Place of Incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Effective interest in the issued share capital/registered capital held	Principal Activity
Fortune Sight Group Limited	Incorporated	British Virgin Islands	Ordinary shares — US$1,000	19%	Investment holding
Guangxi Lee & Man Forestry Technology Limited	Registered	PRC	Registered capital — HK$168,000,000	19%	Producing raw materials for manufacturing of paper and pulp

10. INVENTORIES

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Raw materials	**2,375,448**	2,131,577
Finished goods	**309,109**	367,590
	2,684,557	2,499,167

11. TRADE AND OTHER RECEIVABLES

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Trade receivables	**1,426,329**	1,708,040
Bills receivable	**281,835**	526,742
	1,708,164	2,234,782
Deposits and prepayments	**404,924**	199,017
Other receivables	**409,442**	294,088
	2,522,530	2,727,887

The Group generally allows an average credit period range from 45 to 60 days to its customers. An ageing analysis of the trade and bills receivables is as follows:

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**883,771**	1,257,486
31–60 days	**455,300**	545,117
61–90 days	**181,123**	286,433
Over 90 days	**187,970**	145,746
	1,708,164	2,234,782

12. TRADE AND OTHER PAYABLES

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Trade and bills payable	**641,513**	747,743
Accruals and other payables	**853,845**	643,906
	1,495,358	1,391,649

The average credit period taken for trade purchases range from 30 to 60 days. An ageing analysis of the trade and bills payables is as follows:

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**359,639**	665,148
31–60 days	**127,448**	48,584
61–90 days	**82,144**	17,161
Over 90 days	**72,282**	16,850
	641,513	747,743

13. REVIEW OF INTERIM ACCOUNTS

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

BUSINESS REVIEW AND OUTLOOK

Business Review

For the first six months of fiscal year of 2008/2009, the Group achieved a turnover of HK$5,493 million and has recorded a net profit of HK$668 million. During this period, we have added two new paper production lines, PM12 and PM13, boosting our total annual containerboard capacity to 3.76 million tons. The management believes these two production lines will make financial contributions in the near future.

Outlook

The management believes the next six months will be extremely difficult due to current global economic crisis and market slowdown. In fact, our fiscal third quarter's performance (from October to December) will be adversely affected because of rapidly falling of selling price. Fortunately, we believe our fiscal fourth quarter's performance (from January 2009 to March 2009) will be returned to normal.

In the meantime, the management will focus on cost control, sales network expansion, and products diversification to meet market demands. Further, the management will sell unprofitable non-core businesses and will postpone our Vietnam expansion plans indefinitely in order to reduce our current gearing levels.

The management believes that the current economic uncertainties are only short term, and by strengthening ourselves now, we will be able to grow and expand when the global economic situation improves, aiming to generate the better returns for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to equity holder of the Company for the six months ended 30 September 2008 was HK$5,493 million and HK$668 million respectively, representing an increase of 41.0% and a decrease of 6.9%, as compared to HK$3,894 million and HK$718 million, for the corresponding period last year. The earnings per share for the period was HK58.75 cents as compared to HK63.52 cents for the corresponding period last year.

The increase in revenue was mainly attributable to the significant increase in the Group's sales of containerboard due to the full period commercial operation of PM9, PM10 and PM11 and the commercial operation of PM12 during the period.

The decrease in net profit was mainly due to tremendously increasing raw material costs in recovered paper, pulp and coal during the period.

Distribution and Selling Expenses and Administrative Expenses

The Group's distribution and selling expenses and administrative expenses increased by approximately 41.3% and 9.8% from HK$104.8 million and HK$168.5 million for the six months ended 30 September 2007 to HK$148.1 million and HK$184.9 million for the six months ended 30 September 2008 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period. The distribution and selling expenses and administrative expenses represented about 2.7% and 3.4% of the revenue, respectively, for the six months ended 30 September 2008, and were comparable to the year ended 31 March 2008.

Finance Costs

The Group's finance costs increased by approximately 136.9% from HK$33.4 million for the six months ended 30 September 2007 to HK$79.2 million for the six months ended 30 September 2008. The increase was mainly due to the increase in average amount of outstanding bank borrowings during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 119 days and 13 days, respectively, for the year ended 30 September 2008 as compared to 105 days and 11 days, respectively, for the six months ended 31 March 2008.

The Group's debtors' turnover days were 48 days for the six months ended 30 September 2008 as compared to 69 days for the year ended 31 March 2008. 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 32 days for the six months ended 30 September 2008 as compared to 37 days for the year ended 31 March 2008 and is in line with the credit terms granted by the Group's suppliers to the Group.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 30 September 2008 was HK$9,011 million (31 March 2008: HK$8,034 million). As at 30 September 2008, the Group had current assets of HK$5,487 million (31 March 2008: HK$5,736 million) and current liabilities of HK$4,917 million (31 March 2008: HK$4,371 million). The current ratio was 1.12 as at 30 September 2008 as compared to 1.31 at 31 March 2008.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Macau, Hong Kong and the PRC. As at 30 September 2008, the Group had outstanding bank borrowings of HK$7,518 million (31 March 2008: HK$7,101 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) decreased from 0.84 as at 31 March 2008 to 0.81 as at 30 September 2008.

The Group's liquidity position remains strong and 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 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 months ended 30 September 2008.

During the six months ended 30 September 2008, the Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure. In this regards, the Group considered its currency risk is significantly reduced.

EMPLOYEES

As at 30 September 2008, the Group had a workforce of more than 7,300 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 Share Option Scheme whereby employees of the Group are granted options to acquire shares in the Company.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK5 cents (2007: HK16 cents) per share for the six months ended 30 September 2008 to shareholders whose names appear on the Register of Members on 7 January 2009. It is expected that the interim dividend will be paid around 20 January 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 5 January 2009 to 7 January 2009, 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 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4.30 pm on 2 January 2009.

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to 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 standards set out in the Model Code throughout the six months ended 30 September 2008. 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 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 2008.

AUDIT COMMITTEE

The Audit Committee of the Company comprised of four independent non-executive directors namely, Mr Wong Kai Tung Tony, Ms Law Kar Shui Elizabeth, Mr Peter A Davies and Mr Chau Shing Yim David.

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 2008.

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 Wong Kai Tung Tony, Ms Law Kar Shui Elizabeth, Mr Peter A Davies and Mr Chau Shing Yim David. All members of the remuneration committee are independent non-executive directors.

On behalf of the Board
Lee Wan Keung Patrick
Chairman

Hong Kong, 15 December 2008

As at the date of this notice, the board of directors of the Company comprises four executive directors, namely Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond, Mr Lee Man Bun and Mr Li King Wai Ross, one non-executive director, namely Professor Poon Chung Kwong and four independent non-executive directors, namely Mr Wong Kai Tung Tony, Ms Law Kar Shui Elizabeth, Mr Peter A Davies and Mr Chau Shing Yim David.

* *for identification purposes*