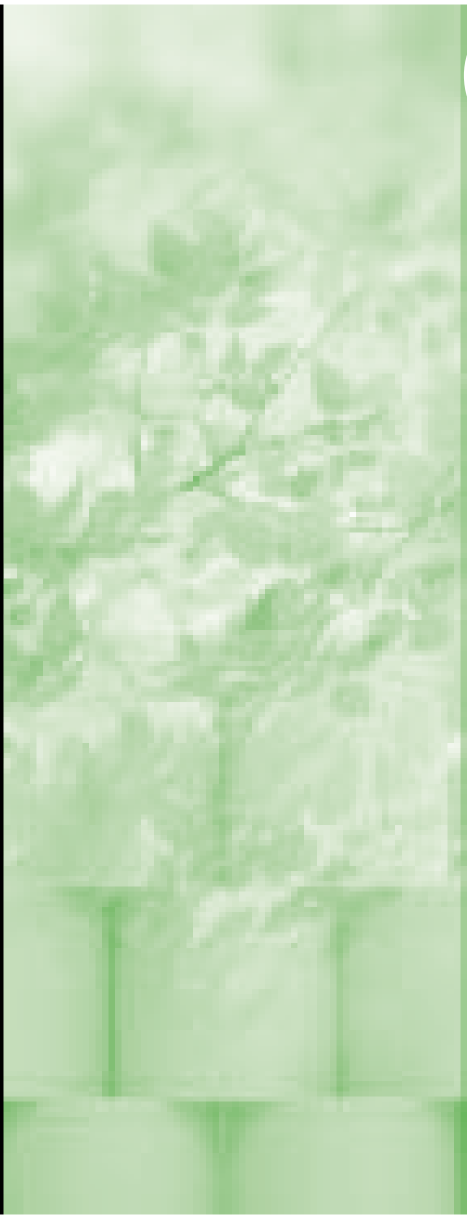
ANNUAL REPORT 2003/04

理 文 造 紙 有 限 公 司*

Lee & Man Paper Manufacturing Limited

(Incorporated in Cayman Islands with limited liability)

* For identification only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Lee Wan Keung, Patrick *(Chairman)*
Mr. Lee Man Chun, Raymond
(Chief executive officer)
Mr. Tan Siak Him, Alexander
Mr. Wong Kai Tung, Tony*
Mr. Heng Kwoo Seng*

* *Independent non-executive director*

COMPANY SECRETARY

Mr. Cheung Kwok Keung

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

In Hong Kong:
Hang Seng Bank Limited
Standard Chartered Bank (HK) Ltd

In the PRC:
China Construction Bank
Industrial and Commercial Bank of China
Bank of China

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

http://www.leemanpaper.com

To recap some of this year's financial highlights, the net profit is 285 million Hong Kong dollars on sales of 1.701 billion Hong Kong dollars. This represents an increase of 34% and 65% over the previous year respectively. These figures are consistent with our theory – continued development and effective management system are crucial factors of profit making.

BUSINESS REVIEW

Lee & Man Paper was established in 1994. The first production line was set up in Dongguan and started operation in 1998 with a capacity of 100,000 tons of containerboard per annum. Today, our Dongguan plant has firmly established itself as one of the leading manufacturer of containerboard paper in China. Over the years we have developed a very good reputation in the Pearl River Delta Region. In 2004, the Company was awarded Certifications of ISO 9001:2000 and ISO 14001:2000 by Det Norske Veritas in recognition of our efforts in improving management quality and environmental protection in our Dongguan Plant.

OUTLOOK

The Group will continue to expand in a fast pace. We are now targeting another important market – "Yangtze River Delta economic zone". The first production line (PM5) in our Changshu plant, with an annual production capacity of 200,000 tons of linerboard, started operation in early 2004 and we expect positive contribution from its production line to be reflected in our next interim result. Another production line (PM6) located at the same mill with an annual production capacity of 350,000 tons of corrugating medium is scheduled to begin production in September 2004. With these two additional lines, the total annual production capacity for both Dongguan and Changshu plants will increase to 1.2 million tons, which represents an annual sales value of HK$3 billion. We expect the effects on profits by the additional production lines to be reflected in future result announcements.

According to China custom's statistic, China imported over 2.5 million metric tons containerboards for 2003 and is expected to import a similar amount in the future years as the economy expands. The Group believes that there is room for expansion to meet the shortfall. To further enlarge our presence in the PRC, the Group raised HK$800 million and will be used for purchasing a land of 1200 acres and machines for our new plant in Dongguan Hongmei (detailed information was announced before). Our managers and technical staffs, equipped with professional production know how gained from their past experiences, are confident in leading the Group to further increase our market share in China and to surpass our competitors. With China's economy remains buoyant and growing at a phenomenal rate of 7% to 8% each year, the consumption of paper products will also keep pace at a similar rate, we have every reason to remain optimistic for the years to come.

On behalf of the Board

Lee Wan Keung, Patrick
Chairman

Hong Kong, 6 July 2004

RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the year ended 31 March 2004 was HK$1,701.1 million and HK$284.9 million, representing an increase of 65.4% and 33.7%, as compared to HK$1,028.4 million and HK$213.1 million, respectively, for last year. The earnings per share for the year was HK40.71 cents when compared with HK37.88 cents for last year.

The increase in turnover and net profit were mainly attributable to the significant increase in the Group's sales of containerboard mainly due to the result of the full year commercial operation of the paper machine IV which started in October 2002 and the commenced commercial operation of the paper machine V in January 2004.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Group's distribution costs and administrative expenses increased by approximately 82.8% and 63.8% from HK$13.0 million and HK$39.5 million for the year ended 31 March 2003 to HK$23.7 million and HK$64.7 million for the year ended 31 March 2004 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during the year. Following the operation of the Jiangsu mill , the transportation cost for sales to customers in the Yantze River Delta region by the Dongguan mill previously can be saved.

INTEREST EXPENSES

The Group's interest expenses was HK$15.0 million for the year ended 31 March 2004 and was comparable to HK$15.2 million for the year ended 31 March 2003.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products were 104 days and 27 days, respectively, for the year ended 31 March 2003 as compared to 113 days and 7 days, respectively, for the year ended 31 March 2004. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 62 days for the year ended 31 March 2004 as compared to 55 days for the year ended 31 March 2003. This is in line with the credit terms of around 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days were 31 days for the year ended 31 March 2003 as compared to 34 days for the year ended 31 March 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 31 March 2004 was HK$1,903 million (31 March 2003: HK$495 million). As at 31 March 2004, the Group had current assets of HK$1,270 million (31 March 2003: HK$458 million) and current liabilities of HK$838 million (31 March 2003: HK$631 million). The current ratio was 1.51 as at 31 March 2004 as compared to 0.73 at 31 March 2003.

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 31 March 2004, the Group had outstanding bank borrowings of HK$888 million (31 March, 2003: outstanding bank borrowings of HK$441 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 2.45 as at 31 March 2003 to 0.47 as at 31 March 2004 as a result of the net proceeds raised from the Global Offering. The position had further been enhanced as a result of the completion of the Placement and Subscription in April 2004.

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 year ended 31 March 2004. During the year ended 31 March 2004, the Group did not employ any financial instrument for hedging purposes.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND THE PLACEMENT AND SUBSCRIPTION

The net proceeds from the Global Offering, after deduction of related expenses, of HK$749 million was applied as follows:

– as to HK$340 million for capital expenditure in relation to the first phase of the Changshu Project;

– as to HK$60 million for working capital in relation to the first phase of the Changshu Project;

– as to HK$200 million for the repayment of debts; and

– the balance as general working capital of the Group.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND THE PLACEMENT AND SUBSCRIPTION *(Continued)*

The net proceeds from the Placement and Subscription which was completed in April 2004, of approximately HK$804 million, was earmarked as to approximately HK$500 million for the acquisition cost of the main unit paper machine VII and costs of ancillary and support equipment such as preparation unit, pumps and cranes which are expected to be incurred over the next one and a half year. The proceeds from the Subscription not immediately applied towards the purchase of paper machine VII have been employed as general working capital.

EMPLOYEES

As at 31 March 2004, the Group had a workforce of more than 2,000 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 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.

EXECUTIVE DIRECTOR

Mr. Lee Wan Keung, Patrick, aged 61, Chairman of the Company and founder of the Group, is in charge of corporate strategy and planning, the overall development of the Group and public relations for the Group in the PRC. He has over 41 years of experience in manufacturing and international trade. Mr. Lee is the Chairman of the Hong Kong Hainan Commercial Association, a standing member of the Political Consultative Committee of Guangdong Province and an honorary principal of the Qionghai Jiaji Secondary School and Hainan Guoxing Secondary School. He has also been awarded honorary citizenship of Dongguan.

Mr. Lee Man Chun, Raymond, aged 33, Chief Executive Officer and Managing Director as well as founder of the Company, is primarily in charge of day to day corporate strategy, corporate planning and overall management of the Group. Mr. Lee has over ten years of operational experience in paper manufacturing and related business and has been overseeing the development of the paper business. He is experienced in building construction, product development, purchasing of raw materials and selling of paper. He holds a bachelor's degree in applied science from the University of British Columbia. Mr. Lee is also involved in a number of public engagements including being a standing member of the Political Consultative Committee of Hainan, the Chairman of the 37th Term Board of Directors of Yan Chai Hospital of Hong Kong, the President of the Kowloon region of the Scout Association of Hong Kong and the President of the Hong Kong Road Safety Association. Mr. Lee has also been awarded honorary citizenship of Dongguan. In November 2002, Mr. Lee was awarded the "Young Industrialist Award of HongKong 2002" by the Federation of the Hong Kong Industries. In addition, in November 2003, Mr. Lee was also awarded the "2003 Hong Kong Ten Outstanding Young Persons Selection Awardee" by Hong Kong Junior Chamber. Mr. Lee is the eldest son of Mr. Lee Wan Keung, Patrick.

Mr. Tan Siak Him, Alexander, aged 46, is responsible for procurement of raw materials. He also assists in liaising and maintaining relationships with various governmental authorities in the PRC. Mr. Tan Joined the Group in October 2000. He has over 26 years of experience in the management of both multinational and local manufacturing companies in China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Kai Tung, Tony, aged 61, an independent non-executive Director of the Group, has been a practicing lawyer in Hong Kong since 1968 and has also been admitted as a solicitor in England and Wales. He is currently a consultant at Messrs. Hastings & Co., Solicitors and Notaries.

Mr. Heng Kwoo Seng, aged 56, an independent non-executive Director of the Group, is the Managing Partner of Morison Heng, Chartered Accountants and Certified Public Accountants in Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He has worked with a number of companies listed on the Stock Exchange either in the capacity of company secretary or as an independent non-executive director.

SENIOR MANAGEMENT

Mr. Cheung Kwok Keung, aged 37, is the Chief Financial Officer of the Group responsible for the supervision and management of the Group's financial matters and company secretary of the Company. Mr. Cheung is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants and has over 15 years of experience in the field of auditing and accounting. Mr. Cheung holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He joined the Group in August 2002.

SENIOR MANAGEMENT *(Continued)*

Mr. Lee Man Bun, aged 24, is the director of Dongguan Lee & Man responsible for the daily production and factory management. Mr. Lee holds a bachelor's degree of Applied Science in Chemical Engineering from the University of British Columbia. He joined the Group in July 2003. Mr. Lee is the youngest son of Mr. Lee Wan Keung, Patrick.

Mr. Lau Kwok Keung, aged 47, is the executive manager of Dongguan Lee & Man responsible for the daily operation and management of Dongguan Lee & Man. Mr. Lau holds a bachelor's degree of science (engineering) from Imperial College of Science and Technology, University of London. He has over 16 years of factory operation and management experience. He joined the Group in July 2003.

Mr. Chan Kong Sang, aged 44, is the project manager of Jiangsu Lee & Man responsible for expansion and development projects. Mr. Chan holds a bachelor's degree of science in engineering from the University of Hong Kong. Mr. Chan has over 21 years of operational experience in managing production and engineering aspects of manufacturing businesses and joined the Group in January 2001.

Ms. Lam Sau Ping, aged 35, is the sales manager of the Group responsible for sales and marketing. Ms. Lam holds a higher certificate in marketing and sales management from the Hong Kong Polytechnic University. Ms. Lam has over 14 years of work experience in sales and marketing. She joined the Group in March 1996.

Mr. Lu Man Sheng, aged 57, is a production manager of Dongguan Lee & Man responsible for the management of paper manufacturing. Mr. Lu holds a professional engineer certificate for paper manufacturing stock preparation from the Guangxi School of Light Industry. Mr. Lu has over 34 years of experience in paper manufacturing and production management. He joined the Group in May 1994.

Mr. Chan Chi Ho, aged 35, is a production manager of Jiangsu Lee & Man responsible for paper production management and engineering matters. Mr. Chan has over 16 years of experience in overseeing production matters in the paper manufacturing business. Mr. Chan joined the Group in April 1999.

Mr. Wu Xiao Shi, aged 37, is the power plant manager of the Group responsible for management of power production. Mr. Wu holds a bachelor's degree in engineering from Dongnan University. Mr. Wu has over 15 years of experience in power production management. Mr. Wu joined the Group in December 1999.

Mr. Wu Pak Ping, aged 37, is the infrastructure manager of Jiangsu Lee & Man responsible for the planning and development of the infrastructure of the Group's production facilities. Mr. Wu holds a bachelor's degree in civil engineering from the University of Hunan and has over 18 years of experience in planning and managing infrastructure. He joined the Group in April 1997.

The directors present their first report and the audited financial statements of the Company from 21 May 2003 (date of incorporation) to 31 March 2004 and of the Group for the year ended 31 March 2004.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands on 21 May 2003.

Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 11 September 2003. Details of the Corporate Reorganisation are set out in the prospectus issued by the Company dated 16 September 2003 (the "Prospectus"). The shares of the Company were listed on the Stock Exchange with effect from 26 September 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 30 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 18.

The directors of the Company recommended the payment of a final dividend of HK$0.10 per share for the year ended 31 March 2004 to the shareholders on the register of members on 16 August 2004, amounting to approximately HK$96,078,000, subject to the approval of the shareholders at the forthcoming annual general meeting.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 20 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$646 million for the purpose of expanding its business. Details of this and other movements in the property, plant and equipment of the Group during the year are set out in note 9 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the period and up to the date of this report were:

Executive directors

Lee Wan Keung, Patrick *(Chairman)*	(appointed on 11 June 2003)
Lee Man Chun, Raymond *(Chief executive officer)*	(appointed on 11 June 2003)
Tan Siak Him, Alexander	(appointed on 11 June 2003)

Independent non-executive directors

Wong Kai Tung, Tony	(appointed on 11 September 2003)
Heng Kwoo Seng	(appointed on 11 September 2003)

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, each of Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond, Mr. Tan Siak Him, Alexander, Mr. Wong Kai Tung, Tony and Mr. Heng Kwoo Seng retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company for an initial period of four years commencing 1 September 2003, which will continue thereafter unless and until terminated by either party by three months' prior written notice.

Each of the independent non-executive directors has entered into a service agreement with the Company for an initial period of one year commencing 1 September 2003, which will continue thereafter unless and until terminated by either party by three months' prior written notice.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

As at 31 March 2004, the relevant interests or short positions of the directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO)) or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to securities transactions by directors to be notified to the Company and the Stock Exchange were as follows:

Long positions

(a) Ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of ordinary shares	Number of ordinary shares subject to options granted under the Pre-IPO Share Option Scheme	Percentage of the issued share capital of the Company
Lee Wan Keung, Patrick	Held by controlled corporation *(Note)*	570,500,000	–	67.87%
Lee Man Chun, Raymond	Held by controlled corporation *(Note)*	570,500,000	–	67.87%
Tan Siak Him, Alexander	Beneficial owner	–	3,000,000	0.36%
Wong Kai Tung, Tony	Beneficial owner	–	1,000,000	0.12%
Heng Kwoo Seng	Beneficial owner	–	1,800,000	0.21%

Note: These shares were held by Gold Best Holdings Ltd. ("Gold Best"), whose entire issued share capital is held by Newcourt Trustees Limited ("Newcourt Trustees") as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond (both of whom are directors of the Company), certain of their family members and other charitable objects.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN EQUITY OR DEBT SECURITIES *(Continued)*

Long positions *(Continued)*

(b) Ordinary shares of the associated corporations of the Company

Name of director	Capacity	Name of associated corporation	Number of ordinary shares	Percentage of the issued share capital of the associated corporation
Lee Wan Keung, Patrick	Held by controlled corporation *(Note)*	Gold Best	5	100%
Lee Man Chun, Raymond	Held by controlled corporation *(Note)*	Gold Best	5	100%

Note: As Gold Best owns more than 50% interest of the Company, Gold Best is an associated corporation of the Company under the SFO. The entire issued share capital of Gold Best is owned by Newcourt Trustees as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond (both of whom are directors of the Company), certain of their family members and other charitable objects.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2004.

SHARE OPTIONS

Particulars of the Company's share option schemes, namely Share Option Scheme and Pre-IPO Share Option Scheme, are set out in note 22 to the financial statements.

SHARE OPTIONS *(Continued)*

The following table discloses movements in the Company's Pre-IPO Share Option Scheme during the period.

Name	Date of grant	Exercise price per share HK$	Exercisable period	Number of shares of the Company to be issued upon exercise of the share options: Granted during the period	Exercised during the period	Outstanding at 31.3.2004
Category I: Directors						
Tan Siak Him, Alexander	11.9.2003	4.17	27.3.2004 to 25.9.2006	3,000,000	–	3,000,000
Wong Kai Tung, Tony	11.9.2003	4.17	27.3.2004 to 25.9.2006	1,000,000	–	1,000,000
Heng Kwoo Seng	11.9.2003	4.17	27.3.2004 to 25.9.2006	1,800,000	–	1,800,000
Total Directors				5,800,000	–	5,800,000
Category II: Shareholders						
Gold Best	11.9.2003	4.17	26.9.2003 to 25.9.2006	61,000,000	(61,000,000)	–
Category III: Other employees						
Employees	11.9.2003	4.17	27.3.2004 to 25.9.2006	5,900,000	(1,006,000)	4,894,000
Category IV: Others						
Consultants	11.9.2003	4.17	27.3.2004 to 25.9.2006	2,300,000	(400,000)	1,900,000
Total				75,000,000	(62,406,000)	12,594,000

No options have been granted under the Share Option Scheme since its adoption.

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under the Pre-IPO Share Option Scheme were exercised was HK$5.097.

SHARE OPTIONS *(Continued)*

The Pre-IPO share options were granted by the Company on the assumption that (i) the offer price is HK$3.92 (the mid-point of the indicative offer price ranged stated in the Prospectus; (ii) the price to be paid by an optionholder for the conversion of options into shares to be HK$3.92 per share (the mid-point of the indicative offer price ranged stated in the Prospectus); (iii) the period upon which the option may be exercised by an optionholder to be three years from the date of grant of option; and (iv) the annual interest rate to be 0.05%, the directors estimated that the value of the options granted under the Pre-IPO Share Option Scheme to be approximately HK$0.0059 per option and the aggregate value of the options under the Pre-IPO Share Option Scheme to be approximately HK$442,000, based on the Black-Scholes valuation method.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Options" above, at no time during the period was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the following persons (other than directors or chief executives of the Company) had an interest or short position in the ordinary shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Gold Best	Beneficial owner	570,500,000	67.87%
Newcourt Trustees	Held by controlled corporation	570,500,000	67.87%
Lee Wong Wai Kuen	Held by spouse *(Note)*	570,500,000	67.87%

Note: Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 570,500,000 ordinary shares as she is the spouse of Lee Wan Keung, Patrick, a director of the Company.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at 31 March 2004, the Company had not been notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 28 to the financial statements. In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;

(iii) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and

(iv) within the relevant cap amounts as agreed by the Stock Exchange.

Save as disclosed above, there were no other transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "Connected Transactions", there were no contracts of significance to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 52% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 31% of the Group's total purchases.

The aggregate sales during the year attributable to the Group's five largest customers were less than 30% of the Group's total sales.

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest suppliers of the Group.

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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 31 March 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$121,000.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 29 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the period. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board
Lee Wan Keung, Patrick
Director

Hong Kong, 6 July 2004

Deloitte.
德勤

TO THE SHAREHOLDERS OF LEE & MAN PAPER MANUFACTURING LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

Hong Kong, 6 July 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover		**1,701,055**	1,028,406
Cost of sales		**(1,322,703)**	(755,587)
Gross profit		**378,352**	272,819
Other operating income		**15,220**	9,983
Distribution costs		**(23,728)**	(12,983)
Administrative expenses		**(64,708)**	(39,510)
Profit from operations	4	**305,136**	230,309
Interest on bank borrowings wholly repayable within five years		**(15,008)**	(15,233)
Profit before taxation		**290,128**	215,076
Taxation	6	**(5,250)**	(2,000)
Profit for the year		**284,878**	213,076
Dividend	7	**96,078**	30,000
Earnings per share	8		
– Basic		**40.71 cents**	37.88 cents
– Diluted		**40.50 cents**	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2004

	Notes	**2004** **HK$'000**	2003 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**2,025,562**	1,436,029
Deposits paid on acquisition of property, plant and equipment	*10*	**113,359**	35,919
		2,138,921	1,471,948
CURRENT ASSETS			
Inventories	*12*	**469,070**	257,847
Trade and bills receivable	*13*	**287,718**	156,074
Deposits, prepayments and other receivables		**158,998**	18,774
Retirement benefit assets	*27*	**1,254**	1,195
Amount due from a related company	*14*	**1,444**	684
Bank balances and cash		**351,718**	23,261
		1,270,202	457,835
CURRENT LIABILITIES			
Trade and bills payable	*15*	**120,574**	62,833
Accruals and other payables		**122,915**	115,396
Taxation payable		**7,250**	2,000
Land costs payable – due within one year	*16*	**9,553**	9,554
Bank borrowings – due within one year	*17*	**578,196**	440,931
		838,488	630,714
NET CURRENT ASSETS (LIABILITIES)		**431,714**	(172,879)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,570,635**	1,299,069

At 31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT LIABILITIES			
Amount due to former ultimate holding company	18	–	795,000
Amount due to ultimate holding company	19	**357,485**	–
Land costs payable – due after one year	16	–	9,553
Bank borrowings – due after one year	17	**309,752**	–
		667,237	804,553
		1,903,398	494,516
CAPITAL AND RESERVES			
Share capital	20	**84,053**	–
Reserves		**1,819,345**	494,516
		1,903,398	494,516

The financial statements on pages 18 to 53 were approved and authorised for issue by the Board of Directors on 6 July 2004 and are signed on its behalf by:

Lee Wan Keung, Patrick
Chairman

Lee Man Chun, Raymond
Director

BALANCE SHEET

At 31 March 2004

	Notes	HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	11	**2,168,742**
CURRENT ASSETS		
Other receivables		**5,206**
Bank balances		**335,642**
		340,848
CURRENT LIABILITIES		
Other payables		**415**
Bank borrowings – due within one year	17	**85,526**
		85,941
NET CURRENT ASSETS		**254,907**
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,423,649**
NON-CURRENT LIABILITIES		
Amount due to ultimate holding company	19	**357,485**
Bank borrowings – due after one year	17	**309,752**
		667,237
		1,756,412
CAPITAL AND RESERVES		
Share capital	20	**84,053**
Reserves	21	**1,672,359**
		1,756,412

Lee Wan Keung, Patrick
Chairman

Lee Man Chun, Raymond
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2004

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Special reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 April 2002	–	–	2,169	–	292,489	294,658
Exchange differences arising from translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	16,781	–	–	16,781
Issue of shares by subsidiaries	–	–	–	1	–	1
Profit for the year	–	–	–	–	213,076	213,076
Dividend paid *(note 7)*	–	–	–	–	(30,000)	(30,000)
At 31 March 2003	–	–	18,950	1	475,565	494,516
Exchange differences arising from translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	513	–	–	513
Issue of shares on acquisition of subsidiaries	3,000	–	–	–	–	3,000
Issue of shares under global offering	18,750	763,125	–	–	–	781,875
Issue of shares by capitalisation of share premium	53,250	(53,250)	–	–	–	–
Issue of shares on exercise of over-allotment option and share options	9,053	368,457	–	–	–	377,510
Expenses incurred in connection with the issue of shares	–	(35,894)	–	–	–	(35,894)
Reserve arising on acquisition of subsidiaries	–	–	–	(3,000)	–	(3,000)
Profit for the year	–	–	–	–	284,878	284,878
At 31 March 2004	**84,053**	**1,042,438**	**19,463**	**(2,999)**	**760,443**	**1,903,398**

The special reserve of the Group represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Group pursuant to the Corporate Reorganisation (see note 1), over the nominal value of the Company's shares issued for the acquisition.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	2004 HK$'000	2003 HK$'000
OPERATING ACTIVITIES		
Profit from operations	**305,136**	230,309
Adjustments for:		
Amortisation of borrowing costs	**278**	–
Interest income	**(412)**	(432)
Depreciation and amortisation	**54,972**	34,421
Loss on disposal of property, plant and equipment	**37**	48
Operating cash flows before movements in working capital	**360,011**	264,346
Increase in inventories	**(211,223)**	(162,708)
Increase in trade and bills receivable	**(131,131)**	(70,292)
Increase in deposits, prepayments and other receivables	**(140,224)**	(7,309)
Increase in retirement benefit assets	**(59)**	(57)
Increase in amount due from a related company	**(760)**	(668)
Increase in trade and bills payable	**57,741**	53,778
Increase in accruals and other payables	**7,519**	81,193
Cash (used in) generated from operations	**(58,126)**	158,283
Interest paid	**(15,008)**	(15,233)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(73,134)**	143,050
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(619,159)**	(591,929)
Deposits paid on acquisition of property, plant and equipment	**(113,359)**	(35,919)
Proceeds from disposal of property, plant and equipment	**982**	13
Interest received	**412**	432
NET CASH USED IN INVESTING ACTIVITIES	**(731,124)**	(627,403)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	2004	2003
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
New bank loans raised	**2,304,453**	506,969
Net proceeds from issue of shares	**1,123,491**	–
Advance from ultimate holding company	**357,485**	–
Repayment of bank loans	**(1,855,050)**	(240,566)
(Repayment to) advance from former ultimate holding company	**(795,000)**	201,867
Borrowing costs paid	**(5,000)**	–
Dividend paid	**–**	(30,000)
NET CASH FROM FINANCING ACTIVITIES	**1,130,379**	438,270
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**326,121**	(46,083)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**23,261**	68,922
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**–**	422
CASH AND CASH EQUIVALENTS CARRIED FORWARD	**349,382**	23,261
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**351,718**	23,261
Bank overdraft	**(2,336)**	–
	349,382	23,261

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands on 21 May 2003. Its ultimate holding company is Gold Best Holdings Ltd. ("Gold Best"), a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 30.

Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange''), the Company became the holding company of the Group on 11 September 2003. Details of the Corporate Reorganisation are set out in the prospectus issued by the Company dated 16 September 2003 (the "Prospectus"). The shares of the Company were listed on the Stock Exchange on 26 September 2003.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the principle of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 ''Accounting for group reconstructions'' issued by the Hong Kong Society of Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Steam income is recognised in accordance with the agreement.

Property, plant and equipment

Property, plant and, equipment other than construction in progress are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to the construction. It is not depreciated or amortised until completion of construction. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Leasehold land and land use rights are amortised over the period of the lease or rights respectively using the straight line method.

Depreciation and amortisation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	5%
Furniture, fixtures and equipment	20%
Leasehold improvements	5%
Motor vehicles	20%
Plant and machinery	$3\frac{1}{3}$% – 20%

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs comprise borrowing expenses and other incidental costs incurred in connection with the borrowing of funds, and is amortised on a straight line basis over the term of respective borrowings.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statements on a straight line basis over the period of the respective leases.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the fair value of the plan assets as adjusted for unrecognised actuarial gains and losses, and as reduced by the present value of the defined benefit obligation.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment analysis is presented as all of the Group's turnover and contribution to results were derived from the manufacture and sales of paper for both years.

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		Contribution to profit from operations	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China other than Hong Kong (the "PRC")	**712,776**	254,159	**127,685**	56,812
Export sales delivered in the PRC *(Note)*	**988,279**	773,619	**177,039**	172,925
Others	**–**	628	**–**	140
	1,701,055	1,028,406	**304,724**	229,877
Interest income			**412**	432
Interest on bank borrowings wholly repayable within five years			**(15,008)**	(15,233)
Profit before taxation			**290,128**	215,076
Taxation			**(5,250)**	(2,000)
Profit for the year			**284,878**	213,076

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

Since the goods sold to various geographical markets were produced from the same production facilities, analysis of assets and liabilities by geographical market is not presented.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

The following is an analysis of the carrying amount of segment assets, additions to property, plant and equipment and depreciation and amortisation, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment		Depreciation and amortisation	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
PRC other than Hong Kong	**3,060,458**	1,918,840	**645,524**	610,480	**54,748**	33,832
Hong Kong	**348,665**	10,943	**–**	556	**224**	589
	3,409,123	1,929,783	**645,524**	611,036	**54,972**	34,421

4. PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 5)*	**2,899**	2,399
Other staff costs	**44,005**	32,681
Retirement benefits scheme contributions	**1,100**	737
Total staff costs	**48,004**	35,817
Amortisation of borrowing costs (included in administrative expenses)	**278**	–
Auditors' remuneration	**665**	510
Depreciation and amortisation	**54,972**	34,421
Loss on disposal of property, plant and equipment	**37**	48
Operating lease rentals in respect of land and buildings	**974**	788
and after crediting:		
Interest income	**412**	432

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004	2003
	HK$'000	*HK$'000*
Directors' fees:		
Executive	**–**	–
Independent non-executive	**187**	–
Other emoluments of executive directors:		
– salaries and other benefits	**2,690**	2,364
– retirement benefits scheme contributions	**22**	35
Total directors' emoluments	**2,899**	2,399

The directors' emoluments were within the following bands:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**3**	5
HK$1,000,001 to HK$1,500,000	**2**	–

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Of the five individuals with the highest emoluments in the Group, two (2003: three) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three (2003: two) individuals were as follows:

	2004	2003
	HK$'000	*HK$'000*
Employees		
– salaries and other benefits	**2,049**	1,263
– bonus	**–**	44
– retirement benefits scheme contributions	**36**	24
	2,085	1,331

The aggregate emoluments of each of the above three (2003: two) employees were under HK$1,000,000 for both years.

6. TAXATION

A substantial portion of the Group's profits neither arises in, nor is derived from, Hong Kong and therefore is not subject to Hong Kong Profits Tax.

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 for the year after taking into account the relevant tax incentives.

The subsidiary in Malaysia carries on offshore trading activities in Labaun, 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 Labaun is charged at a fixed annual rate of Malaysian RM20,000.

Under Decree-Law no. 58/99/M, a Macau company incorporated under that 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. The subsidiaries in Macau are qualified as 58/99/M Companies.

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

6. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK$'000	**%**	*HK$'000*	%
Profit before taxation	**290,128**		215,076	
Tax at the applicable tax rate of 24% (2003: 24%)	**69,631**	**24.0**	51,618	24.0
Tax effect of expenses not deductible for tax purpose	**16,787**	**5.8**	70	–
Tax effect of income not taxable for tax purpose	**(33,369)**	**(11.5)**	(38,062)	(17.6)
Tax effect of tax losses not recognised	**–**	**–**	346	–
Utilisation of tax losses previously not recognised	**(101)**	**(0.1)**	–	–
Effect of tax exemption for PRC subsidiaries	**(9,647)**	**(3.3)**	(11,938)	(5.5)
Effect of tax exemption granted to Macau and Malaysia subsidiaries	**(38,015)**	**(13.1)**	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(36)**	**–**	(34)	–
Tax expense and effective tax rate for the year	**5,250**	**1.8**	2,000	0.9

The Group and the Company had no significant unrecognised deferred taxation for the year or at the balance sheet date.

7. DIVIDEND

	2004	2003
	HK$'000	*HK$'000*
Final dividend proposed of HK$0.10 per share	**96,078**	–
Interim dividend	**–**	30,000
	96,078	30,000

The dividend for the year ended 31 March 2003 represented dividend paid in that year by one of the Company's subsidiaries to its then shareholders prior to the Corporate Reorganisation.

A final dividend of HK$0.10 per share for the year ended 31 March 2004 has been proposed by the board of directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

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

	2004	2003
	HK$'000	*HK$'000*
Earnings:		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	**284,878**	213,076
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**699,728,535**	562,500,000
Effect of dilutive potential ordinary shares in respect of over-allotment option and share options	**3,616,014**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**703,344,549**	

9. PROPERTY, PLANT AND EQUIPMENT

	Land use rights	Buildings	Construction in progress	Furniture fixtures & equipment	Leasehold improve-ments	Motor vehicles	Plant & machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1 April 2003	27,878	240,410	71,819	4,924	424	9,160	1,182,771	1,537,386
Additions	7,358	7,920	615,031	5,009	106	2,776	7,324	645,524
Transfers	47,768	129,048	(590,408)	–	41,556	–	372,036	–
Disposals	–	–	–	–	–	(2,500)	–	(2,500)
At 31 March 2004	**83,004**	**377,378**	**96,442**	**9,933**	**42,086**	**9,436**	**1,562,131**	**2,180,410**
DEPRECIATION AND AMORTISATION								
At 1 April 2003	2,879	26,362	–	2,041	82	4,160	65,833	101,357
Provided for the year	916	12,223	–	1,090	551	1,400	38,792	54,972
Eliminated on disposals	–	–	–	–	–	(1,481)	–	(1,481)
At 31 March 2004	**3,795**	**38,585**	**–**	**3,131**	**633**	**4,079**	**104,625**	**154,848**
NET BOOK VALUE								
At 31 March 2004	**79,209**	**338,793**	**96,442**	**6,802**	**41,453**	**5,357**	**1,457,506**	**2,025,562**
At 31 March 2003	24,999	214,048	71,819	2,883	342	5,000	1,116,938	1,436,029

All the Group's buildings, including construction in progress, are situated on land in the PRC which are held by the Group under medium term land use right.

10. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities. The related capital commitments are included in note 24.

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY
	HK$'000
Unlisted shares, at cost *(Note)*	637,977
Amounts due from subsidiaries	1,530,765
	2,168,742

Note: The cost of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group on the date of Corporate Reorganisation.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore shown in the balance sheet as non-current.

Details of the Company's principal subsidiaries at 31 March 2004 are set out in note 30.

12. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
At cost:		
Raw materials	**438,062**	202,712
Finished goods	**31,008**	55,135
	469,070	257,847

13. TRADE AND BILLS RECEIVABLE

The credit terms granted by the Group to its customers normally range from 45 to 60 days.

An aging analysis of the trade and bills receivable is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**218,565**	107,501
31 – 60 days	**61,070**	39,573
61 – 90 days	**4,194**	7,060
Over 90 days	**3,889**	1,940
	287,718	156,074

14. AMOUNT DUE FROM A RELATED COMPANY

The amount represents trading balance due from Lee & Man Industrial Manufacturing Limited ("Lee & Man Industrial Manufacturing") which is an associate (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of Fortune Star Tradings Ltd. ("Fortune Star"). Fortune Star and the Company are under the control of the same discretionary trust, the discretionary beneficiaries of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond, both of whom are directors of the Company. The amount for both years is aged less than 30 days.

15. TRADE AND BILLS PAYABLE

An aging analysis of the trade and bills payable is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**106,774**	44,740
31 – 60 days	**6,098**	10,776
61 – 90 days	**461**	5,670
Over 90 days	**7,241**	1,647
	120,574	62,833

16. LAND COSTS PAYABLE

The balance represents the amount payable for the acquisition of land which is repayable as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**9,553**	9,554
More than one year, but not exceeding two years	**–**	9,553
	9,553	19,107
Less: Amount due within one year shown under current liabilities	**(9,553)**	(9,554)
Amount due after one year	**–**	9,553

17. BANK BORROWINGS

	THE GROUP		THE COMPANY
	2004	2003	**2004**
	HK$'000	*HK$'000*	***HK$'000***
Bank loans	**721,210**	292,453	**400,000**
Bank import loans	**169,124**	148,478	**–**
Bank overdraft	**2,336**	–	**–**
	892,670	440,931	**400,000**
Borrowing costs:			
Incurred during the year	**5,000**	–	**5,000**
Amortised during the year	**(278)**	–	**(278)**
At 31 March	**4,722**	–	**4,722**
Carrying value at 31 March	**887,948**	440,931	**395,278**
Analysed as:			
– secured	**–**	174,528	**–**
– unsecured	**887,948**	266,403	**395,278**
	887,948	440,931	**395,278**
The bank borrowings are repayable as follows:			
Within one year or on demand	**578,196**	440,931	**85,526**
More than one year, but not exceeding two years	**159,226**	–	**159,226**
More than two years, but not exceeding five years	**150,526**	–	**150,526**
	887,948	440,931	**395,278**
Less: Amount due within one year shown under current liabilities	**(578,196)**	(440,931)	**(85,526)**
Amount due after one year	**309,752**	–	**309,752**

18. AMOUNT DUE TO FORMER ULTIMATE HOLDING COMPANY

The amount represented balance due to Fortune Star which was unsecured, non-interest bearing and was fully repaid during the year.

At 31 March 2003, the repayment of an amount of HK$693,500,000 was subordinated to a bank for banking facilities granted to the Group.

19. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and the balance will be used to settle the subscription payable for the 120,000,000 new shares of HK$0.10 each in April 2004 as mentioned in note 29(a). Accordingly, such amount has been classified as non-current.

20. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
On date of incorporation	3,800,000	380
Increase in authorised share capital	1,996,200,000	199,620
At 31 March 2004	2,000,000,000	200,000

	Number of ordinary shares	Amount
		HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
Issue of share to subscriber	1	–
Issue of shares on acquisition of subsidiaries	29,999,999	3,000
Issue of shares by capitalisation of share premium	532,500,000	53,250
Issue of shares under global offering	187,500,000	18,750
Exercise of over-allotment option	28,124,000	2,812
Exercise of share options	62,406,000	6,241
At 31 March 2004	840,530,000	84,053

20. SHARE CAPITAL *(Continued)*

Details of the changes in the Company's share capital for the period ended 31 March 2004 are as follows:

(a) The Company was incorporated on 21 May 2003 with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. On 11 June 2003, 1 ordinary share of HK$0.10 was allotted and issued, for cash at par to the subscriber.

(b) Pursuant to the written resolutions passed by the sole shareholder of the Company on 11 September 2003:

(i) the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the creation of an additional 1,996,200,000 ordinary shares of HK$0.10 each which rank pari passu with the then existing shares in all respects; and

(ii) the Company issued 29,999,999 new ordinary shares of HK$0.10 each for the acquisition of subsidiaries pursuant to the Corporate Reorganisation as set out in note 1.

(c) Conditional on the share premium account of the Company being credited as a result of the issue of shares under global offering in (d) below, the Company issued 532,500,000 ordinary shares of HK$0.10 each in the Company to the then existing shareholders of the Company by capitalising the Company's share premium account.

(d) On 26 September 2003, by means of issue of new shares under global offering, the Company issued a total of 187,500,000 ordinary shares of HK$0.10 each at a price of HK$4.17 per share.

(e) Pursuant to the underwriting agreements dated 15 September 2003 and 20 September 2003, CLSA Limited ("CLSA") was granted an over-allotment option by the Company pursuant to which the Company was required to issue and allot up to an aggregate of 28,124,000 additional new ordinary shares of HK$0.10 each in the Company at a price of HK$4.17 per share. CLSA exercised the option to require the Company to issue such 28,124,000 additional new ordinary shares at a price of HK$4.17 per share on 15 October 2003.

(f) During the year, 62,406,000 share options under the Pre-IPO Share Option Scheme were exercised at a subscription price of HK$4.17 per share, resulting in the issue of 62,406,000 ordinary shares of HK$0.10 each in the Company.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

21. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated loss HK$'000	Total HK$'000
THE COMPANY				
Premium arising on issue of shares	1,131,582	–	–	1,131,582
Capitalisation of share premium	(53,250)	–	–	(53,250)
Expenses incurred in connection with the issue of shares	(35,894)	–	–	(35,894)
Reserve arising on acquisition of subsidiaries	–	634,977	–	634,977
Loss for the period	–	–	(5,056)	(5,056)
At 31 March 2004	**1,042,438**	**634,977**	**(5,056)**	**1,672,359**

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company pursuant to the Corporate Reorganisation and the nominal value of the Company's shares issued for the acquisition.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated loss which in aggregate amounted to approximately HK$1,672 million as at 31 March 2004. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

22. SHARE OPTION SCHEMES

Pursuant to the written resolution of the shareholders of the Company dated 11 September 2003, two share option schemes, namely Share Option Scheme (the "Scheme") and Pre-IPO Share Option Scheme (the "Pre-IPO Scheme"), were approved and adopted.

The Scheme and the Pre-IPO Scheme were established for the purpose of providing incentives to directors and eligible persons. The Scheme and Pre-IPO Scheme will remain in force for a period of ten years and three years, respectively from adoption of the schemes and will expire on 10 September 2012 and 10 September 2006, respectively.

22. SHARE OPTION SCHEMES *(Continued)*

(i) Share Option Scheme

Under the Scheme, the Board of Directors of the Company (the "Directors") may at their discretion grant options to (i) any director (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group in which the Group holds an equity interest or a subsidiary of such company ("Affiliate"); or (ii) any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, promoters, service providers of any member of the Group as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

Options granted must be taken up within 28 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company at any point in time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK$1 as consideration for grant of option each time. The exercise price is equal to the highest of (i) nominal value of the Shares; (ii) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant; and (iii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant.

No option was granted by the Company under the Scheme since its adoption.

22. SHARE OPTION SCHEMES *(Continued)*

(ii) Pre-IPO Scheme

The principal terms of the Pre-IPO Scheme, approved and amended by written resolutions of the shareholders of the Company dated 11 September 2003, are similar to the terms of the Scheme except for the followings:

(a) The subscription price per share shall be the price per public offer share on the initial public offering ("Offer price"); and

(b) Save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of the shares of the Company on the Stock Exchange.

On 11 September 2003, the Company granted share options under the Pre-IPO Scheme to the Directors and certain employees of the Group, which entitles them to subscribe for a total of 75,000,000 shares at HK$4.17 per share.

Save and except to Gold Best, all other holders to whom options have been granted under the Pre-IPO Scheme will be entitled to exercise (i) up to 50% of the options granted to him/her at any time after the expiry of 6 months till the first anniversary of the listing date, (ii) up to 75% of the options granted to him/her of any time until the second anniversary of the listing date, (iii) up to 100% of the options granted to him/her at any time until the third anniversary of the listing date.

22. SHARE OPTION SCHEMES *(Continued)*

(ii) Pre-IPO Scheme *(Continued)*

The following table discloses details of the Company's options under the Pre-IPO Scheme held by employees (including directors) and movement in such holdings during the period:

Category	Date of grant	Exercise price *HK$*	Granted during the the period	Exercised during the period	Outstanding at 31.3.2004
Shareholders	11 September 2003	4.17	61,000,000	(61,000,000)	–
Directors	11 September 2003	4.17	5,800,000	–	5,800,000
Senior management	11 September 2003	4.17	2,500,000	(400,000)	2,100,000
Employees	11 September 2003	4.17	3,400,000	(606,000)	2,794,000
Others	11 September 2003	4.17	2,300,000	(400,000)	1,900,000
			75,000,000	(62,406,000)	12,594,000

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under the Pre-IPO Scheme were exercised was HK$5.097.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting share issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

23. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**425**	120
In the second to fifth year inclusive	**203**	–
	628	120

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of one year with fixed rentals.

24. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**537,419**	271,886

25. PLEDGE OF ASSETS

At the balance sheet date, banking facilities granted by certain banks to the Group were secured by the assets of the Group as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Property, plant and equipment	**28,511**	555,707

At 31 March 2004, the Group had not utilised any of the banking facilities which was secured by the above assets of the Group.

26. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY
	2004	2003	**2004**
	HK$'000	*HK$'000*	***HK$'000***
Bills discounted with recourse	**158**	–	**–**
Guarantees given to banks in respect of banking facilities extended to subsidiaries	**–**	–	**1,387,359**

27. RETIREMENT BENEFITS PLANS

(i) Plans for Hong Kong employees

Defined benefit plan

The Group is a member of a defined benefit plan which was open to qualified employees of companies under the control of Fortune Star. In December 2000, all the then existing members of the defined benefit plan were enrolled into a MPF Scheme and their accrued benefits for the past services under the defined benefit plan were frozen as at 30 November 2000. The defined benefit plan was closed to new employees from December 2000 onwards.

Under the defined benefit plan, employees are entitled to retirement benefits varying between 0 and 100% of their salary as at 30 November 2000 multiplied by the pensionable service up to 30 November 2000 on attainment of a retirement age of 55. No other post-retirement benefits are provided.

The most recent SSAP 34 actuarial valuation of the plan assets and the present value of the defined benefit obligation was carried out as at 31 March 2004 by HSBC Life (International) Limited. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2004	2003
	per annum	*per annum*
Discount rate	**5%**	5%
Expected return on plan assets	**5%**	5%
Expected rate of salary increases	**0%**	0%

27. RETIREMENT BENEFITS PLANS *(Continued)*

(i) Plans for Hong Kong employees *(Continued)*

Defined benefit plan (Continued)

The SSAP 34 actuarial valuation showed that the market value of plan assets at 31 March 2004 was HK$1,331,000 (2003: HK$1,451,000).

The credit recognised in the consolidated income statement in respect of the defined benefit plan is as follows:

	2004	2003
	HK$'000	*HK$'000*
Interest cost	**8**	9
Expected return on plan assets	**(67)**	(66)
Total, included in other operating income	**(59)**	(57)

The actual return on plan assets for the year was HK$71,000 (2003: HK$65,000).

The amount included in the balance sheet in respect of the Group's defined benefit assets is as follows:

	2004	2003
	HK$'000	*HK$'000*
Fair value of plan assets	**1,331**	1,451
Unrecognised actuarial gains	**(77)**	(8)
Present value of funded obligations	**–**	(248)
	1,254	1,195

27. RETIREMENT BENEFITS PLANS *(Continued)*

(i) Plans for Hong Kong employees *(Continued)*

Defined benefit plan (Continued)

Movements in the net assets in the year were as follows:

	2004	2003
	HK$'000	*HK$'000*
At beginning of the year	**1,195**	1,138
Amounts credited to income	**59**	57
At end of the year	**1,254**	1,195

Defined contribution plan

The Group operates a MPF Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes the lower of HK$1,000 or 5% of the relevant monthly payroll costs to the MPF Scheme.

(ii) Plans for PRC employees

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

28. CONNECTED TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with connected persons at the balance sheet date as follows:

Name of party	Nature of transactions/balance	*Notes*	THE GROUP **2004** ***HK$'000***	2003 *HK$'000*
Lee & Man Industrial Manufacturing	Finished goods sold	*(a)*	**79,767**	90,943
	Waste paper purchased	*(b)*	**6,275**	5,349
	Steam sold	*(c)*	**1,560**	1,560
	Licence fee paid	*(d)*	**783**	674
	Balance due from Lee & Man Industrial Manufacturing		**1,444**	684
Lee & Man Management Company Limited ("Lee & Man Management")	Management fee paid	*(e)*	**505**	–

Notes:

(a) The prices were based on the monthly quote given by the Group provided that the quote was not higher than the prevailing market price at the time of such quotation.

(b) The prices were based on the monthly quote given by Lee & Man Industrial Manufacturing provided that the quote was not higher than the prevailing market price at the time of such quotation.

(c) Lee & Man Industrial Manufacturing paid to the Group a monthly fee of HK$130,000 (which is approximately the cost of coal incurred to produce steam in the past) for the supply of steam by the Group.

(d) The licence fees were charged in accordance with the relevant licence agreements.

(e) Lee & Man Management is a subsidiary of Lee and Man Holding Limited ("Lee & Man Holding"). Lee & Man Holding is beneficially owned by Fortune Star which is an associate (as defined in the Listing Rules) of Newcourt Trustees, a substantial shareholder of the Company. The management fee was charged at a pre-agreed rate of HK$72,076.94 per month for the use of the administrative and secretarial services provided by Lee & Man Management and the right to use its premises as registered office.

In addition, the Company had issued shares to shareholders of the Company pursuant to the Corporate Reorganisation, details of which are set out in notes 20 and 22.

Details of the balances with former ultimate holding company and ultimate holding company are set out in notes 18 and 19 respectively.

29. POST BALANCE SHEET EVENTS

The following events occurred subsequent to 31 March 2004:

(a) On 26 March 2004, Gold Best entered into a subscription agreement to subscribe for an aggregate of 120,000,000 new shares of HK$0.10 each in the Company at a price of HK$6.745 per share. The subscription was completed in April 2004. Details of this transaction are set out in the announcement made by the Company on 26 March 2004.

(b) On 28 April 2004, the Group entered into an agreement with independent third parties for the acquisition of a paper machine at a consideration of US$28,118,000 (equivalent to approximately HK$219,320,000). Details of this transaction are set out in a circular of the Company dated 18 May 2004.

30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which were wholly-owned by the Company at 31 March 2004, are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Able Advance International Limited	British Virgin Islands	Ordinary shares – US$4	Investment holding
Lee & Man Paper Mfg. (H.K.) Limited	Hong Kong	Ordinary shares – HK$2	Investment holding
Lee & Man Industries Company Limited	British Virgin Islands	Ordinary share – US$1	Investment holding
Lee & Man Paper International Limited	British Virgin Islands	Ordinary shares – US$100	Investment holding
Evergreen Trading Company Limited	Malaysia	Ordinary shares – US$2	Procurement of raw materials

30. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Lee Kwok (Macao Commercial Offshore) Trading Limited	Macau	MOP100,000	Procurement of raw materials
東莞理文造紙廠有限公司 (Dongguan Lee & Man Paper Factory Co., Ltd.)	PRC *(note)*	Registered capital – US$118,480,000	Manufacturing of paper
江蘇理文造紙有限公司 (Jiangsu Lee & Man Paper Manufacturing Company Limited)	PRC *(note)*	Registered capital – US$53,458,273	Manufacturing of paper

Note: The companies are wholly foreign owned investment enterprises established in the PRC.

With the exception of Able Advance International Limited, all the subsidiaries are indirectly held.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

	Year ended 31 March			
	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS				
Turnover	512,853	738,885	1,028,406	**1,701,055**
Profit before taxation	78,846	175,520	215,076	**290,128**
Taxation	(4)	–	(2,000)	**(5,250)**
Profit for the year	78,842	175,520	213,076	**284,878**

	At 31 March			
	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES				
Total assets	934,258	1,102,480	1,929,783	**3,409,123**
Total liabilities	(814,080)	(807,822)	(1,435,267)	**(1,505,725)**
Shareholders' funds	120,178	294,658	494,516	**1,903,398**

Note: The Company was incorporated and registered as an exempted company in the Cayman Islands on 21 May 2003 and became the holding company of the Group as a result of a group reorganisation in September 2003. The financial summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.