



*Lee & Man Paper Manufacturing Limited*

理文造紙有限公司\*

(Incorporated in the Cayman Islands with limited liability)

LEE & MAN PAPER

## Interim Report 2003/2004



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## **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 Kwo 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

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>

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 2003 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2003

	Notes	Six months ended 30 September	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	<b>798,631</b>	386,995
Cost of sales		<b>(610,083)</b>	(272,175)
Gross profit		<b>188,548</b>	114,820
Other operating income		<b>6,730</b>	3,399
Distribution costs		<b>(13,298)</b>	(4,398)
Administrative expenses		<b>(32,519)</b>	(14,919)
Profit from operations	3	<b>149,461</b>	98,902
Interest on bank borrowings wholly repayable within five years		<b>(8,533)</b>	(7,284)
Profit before taxation		<b>140,928</b>	91,618
Taxation	4	<b>(3,000)</b>	—
Profit for the year		<b>137,928</b>	91,618
Interim dividend		—	—
Earnings per share (HK cents)			
— Basic	5	<b>24.30</b>	16.29
— Diluted	5	<b>24.15</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2003

	Notes	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	1,709,958	1,436,029
Deposits paid on acquisition of property, plant and equipment		39,729	35,919
		<b>1,749,687</b>	1,471,948
<b>CURRENT ASSETS</b>			
Inventories	7	243,951	257,847
Trade and bills receivables	8	195,704	156,074
Deposits, prepayments and other receivables		50,636	18,774
Retirement benefit assets		1,195	1,195
Amount due from a fellow subsidiary		—	684
Bank balances and cash		340,909	23,261
		<b>832,395</b>	457,835
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	53,569	62,833
Accruals and other payable		133,070	115,396
Taxation payable		5,000	2,000
Land costs payable — due within one year		—	9,554
Bank borrowings — due within one year		1,008,370	440,931
		<b>1,200,009</b>	630,714
<b>NET CURRENT LIABILITIES</b>		<b>(367,614)</b>	(172,879)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,382,073</b>	1,299,069
<b>NON-CURRENT LIABILITIES</b>			
Amount due to ultimate holding company		—	795,000
Land costs payable — due after one year		—	9,553
		—	804,553
		<b>1,382,073</b>	494,516
<b>CAPITAL AND RESERVES</b>			
Share capital	10	75,000	1
Reserves		1,307,073	494,515
		<b>1,382,073</b>	494,516

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2003*

	<b>Six months ended 30 September</b>	
	<b>2003 (Unaudited) HK\$'000</b>	2002 (Unaudited) HK\$'000
Net cash generated from operating activities	<b>126,952</b>	81,353
Net cash used in investing activities	<b>(322,585)</b>	(383,408)
Net cash generated from financing activities	<b>513,281</b>	242,711
Net increase (decrease) in cash and cash equivalents	<b>317,648</b>	(59,344)
Cash and cash equivalents brought forward	<b>23,261</b>	68,922
Effect of foreign exchange rate changes	<b>—</b>	422
Cash and cash equivalents carried forward represented by bank balances and cash	<b>340,909</b>	10,000

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 September 2003

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003	1	—	18,950	475,565	494,516
Issue of shares for the Global Offering	18,750	763,125	—	—	781,875
Capitalization issue	53,250	(53,250)	—	—	—
Issue of shares on acquisition of subsidiaries	2,999	(2,999)	—	—	—
Issue expenses	—	(32,695)	—	—	(32,695)
Exchange difference arising from translation of financial statements of overseas operations	—	—	449	—	449
Profit for the period	—	—	—	137,928	137,928
Transfer to reserves	—	—	(11,181)	11,181	—
At 30 September 2003	75,000	674,181	8,218	624,674	1,382,073

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2002	—	—	2,169	292,489	294,658
Issue of shares	1	—	—	—	1
Exchange difference arising from translation of financial statements of overseas operations	—	—	6,579	—	6,579
Profit for the period	—	—	—	91,618	91,618
At 30 September 2002	1	—	8,748	384,107	392,856

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2003

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the shares of the Company on The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") on 11 September 2003, the Company acquired the entire issued share capital of Able Advance International Limited ("Able Advance") through a share swap and became the holding company of the companies now comprising the Group. Details of the Group Reorganisation are set out in the Prospectus document issued by the Company dated 16 September 2003.

The Group Reorganisation is accounted for using merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", issued by the Hong Kong Society of Accountants ("HKSA"). The condensed consolidated financial statements for the six months ended 30 September 2003 and the year ended 31 March 2003 are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 (revised) "Interim Financial Reporting", under the historical cost convention, as modified for the revaluation of property, plant and equipment. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2003.

### 2. SEGMENTAL INFORMATION

#### Business Segments

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

#### 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	
	Six months ended 30 September		Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC other than Hong Kong	283,504	100,416	52,893	26,145
Export sales delivered in the PRC*	504,907	286,367	94,530	72,375
Others	10,220	212	1,843	50
	<b>798,631</b>	386,995	<b>149,266</b>	98,570
Interest income			195	332
Finance costs			(8,533)	(7,284)
Profit before taxation			<b>140,928</b>	91,618
Taxation			<b>(3,000)</b>	—
Profit attributable to shareholders			<b>137,928</b>	91,618

\* 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. PROFIT FROM OPERATIONS

	<b>Six months ended 30 September</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	<b>1,231</b>	1,098
Other staff costs	<b>19,992</b>	13,938
Retirement benefits scheme contributions	<b>458</b>	342
Total staff costs	<b>21,681</b>	15,378
Depreciation and amortisation	<b>24,725</b>	13,489
Loss on disposal of property, plant and equipment	<b>34</b>	—
Operating lease rentals in respect of land and buildings	<b>397</b>	380

### 4. TAXATION

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

The subsidiaries in the PRC is 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 provision represents the PRC Foreign Enterprise Income Tax charge after taking into account the relevant tax incentives and the possible transfer pricing adjustments on transactions relating to purchases and sales with related parties.

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

### 5. EARNINGS PER SHARE

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

	<b>For the six months ended 30 September</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<b>137,928</b>	91,618
	<b>Number of shares</b>	Number of shares
Weighted average number of shares for the purpose of basic earnings per share	<b>567,622,950</b>	562,500,000
Potential dilutive effect arising from over-allotment option and share options	<b>3,509,968</b>	N/A
Weighted average number of shares for the purposes of diluted earnings per share	<b>571,132,918</b>	N/A

## 6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$300 million (six months ended 30 September 2002: HK\$383 million) on property, plant and equipment to expand its operations.

## 7. INVENTORIES

	<b>30 September 2003</b>	31 March 2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>212,753</b>	188,386
Finished goods	<b>13,751</b>	55,135
Fuel and spare parts	<b>17,447</b>	14,326
	<b>243,951</b>	257,847

## 8. TRADE AND BILLS RECEIVABLES

The credit terms granted by the Group to its customers normally range from 45 days to 60 days. An aging analysis of the trade and bills receivables is as follows:

	<b>30 September 2003</b>	31 March 2003
	<b>HK\$'000</b>	HK\$'000
Aged:		
Less than 1 month	<b>129,385</b>	107,501
1 - 2 months	<b>56,149</b>	39,573
2 - 3 months	<b>10,116</b>	7,060
Over 3 months but not exceeding 6 months	<b>54</b>	1,940
	<b>195,704</b>	156,074

## 9. TRADE AND BILLS PAYABLES

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

	<b>30 September 2003</b>	31 March 2003
	<b>HK\$'000</b>	HK\$'000
Aged:		
Less than 1 month	<b>28,716</b>	44,740
1 - 2 months	<b>10,712</b>	10,776
2 - 3 months	<b>10,349</b>	5,670
Over 3 months	<b>3,792</b>	1,647
	<b>53,569</b>	62,833

## 10. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorised:		
On incorporation on 21 May, 2003	3,800,000	380
Increase in authorised share capital	1,996,200,000	199,620
At 30 September 2003	2,000,000,000	200,000
Issued and fully paid:		
Issue of share to subscriber on 21 May, 2003	1	—
Issue of new shares on acquisition of subsidiaries	29,999,999	3,000
Issue of new shares pursuant to the Capitalization Issue	532,500,000	53,250
Issue of new shares pursuant to the Global Offering	187,500,000	18,750
At 30 September 2003	750,000,000	75,000

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 the same date, 1 share of HK\$0.10 was allotted and issued, for cash at par, to the subscriber.

The balance of the share capital as at 31 March, 2003 represents the aggregate amount of the share capital of subsidiaries.

As part of the corporate reorganisation which the Group has undergone in preparation for the listing of the Company on The Stock Exchange of Hong Kong Limited ("the Corporate Reorganisation"), the Company became the holding company of the Group on 11 September 2003 by effecting the following changes in share capital:

- (i) the Company's authorised share capital was increased from HK\$380,000 to HK\$200,000,000 by the creation of 1,996,200,000 new ordinary shares of HK\$0.10 each in the Company;
- (ii) the Company issued 29,999,999 new ordinary shares of HK\$0.10 each in the Company, credited as fully paid at par to Gold Best Holdings Ltd. ("Gold Best") as consideration for the acquisition of Able Advance International Limited from Gold Best.
- (iii) as part of the Corporate Reorganisation, the Company issued 532,500,000 new ordinary shares of HK\$0.10 each in the Company to the then existing shareholders by capitalising an amount of HK\$53,250,000 standing to the credit of the share premium account of the Company.

On 26 September, 2003, the Company issued 187,500,000 shares pursuant to the Public Offer and the Placing.

Following the above capital changes, the Company's issued capital amounted to HK\$75,000,000 divided into 750,000,000 shares of HK\$0.10 each.

**11. COMMITMENTS**

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>477,919</b>	271,886

In addition, the following is the unpaid registered capital of Dongguan Lee & Man Paper Factory Co., Ltd. ("Dongguan Lee & Man") and Jiangsu Lee & Man Paper Manufacturing Company Limited ("Jiangsu Lee & Man") which will be contributed by other members of the Group according to the required time schedules.

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Dongguan Lee & Man	—	78,613
Jiangsu Lee & Man	<b>362,700</b>	636,480
	<b>362,700</b>	715,093

**12. OPERATING LEASE COMMITMENTS**

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:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Within one year	<b>734</b>	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.

**13. PLEDGE OF ASSETS**

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

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Property, plant and equipment	<b>27,041</b>	555,707

## 14. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with the related parties during the period as follows:

	Notes	Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
Finished goods sold	(a)	<b>40,519</b>	41,169
Waste paper purchased	(b)	<b>3,226</b>	2,728
Steam sold	(c)	<b>780</b>	780
Licence fee paid	(d)	<b>352</b>	337
Management fee paid	(e)	<b>72</b>	—

Notes:

- (a) The prices are based on the monthly quote given by the Group provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (b) The prices are based on the monthly quote given by Lee & Man Industrial Manufacturing Limited provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (c) Lee & Man Industrial Manufacturing Limited will pay 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 fee is HK\$40,000 per month for the use of certain pre-determined areas plus an amount calculated on the basis of any additional space occupied at the rate of HK\$8 per square metre per month.
- (e) The management fee of HK\$72,076.94 per month paid to Lee & Man Management Co. Ltd. is for the use of its administrative and secretarial services and the right to use its premises as registered office.

The directors have confirmed that the above transactions were conducted in the normal course of the Group's business.

## 15. EVENTS AFTER THE BALANCE SHEET DATE

The following events took place subsequent to 30 September 2003:

- CLSA Limited ("CLSA") exercised in full the Over-allotment Option on 15 October 2003 to require the Company to issue 28,124,000 additional new Shares at the offer price of HK\$4.17. Such additional Shares were returned to Gold Best pursuant to the stock borrowing arrangements between Gold Best and CLSA to cover over-allocations in the Placing ("Stock Borrowing Agreement").
- On 15 October 2003, Gold Best exercised in full the option granted to it under the Pre-IPO Share Option Scheme and, as a result, the Company issued 61,000,000 new Shares to Gold Best at the offer price of HK\$4.17.

## 16. REVIEW OF INTERIM ACCOUNTS

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

## INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2003. (2002: nil)

## BUSINESS REVIEW

In the first half of 2003, the Company overcame the impact of SARS and produced an significant increase in sales turnover and profits over the same period last year. In fact, it was the impact of SARS, which provided a wake-up call for the Company to become more competitive when the market conditions deteriorate. As a result, the Company enhanced its competitiveness by broadening its product range, emphasizing on internal staff training as well as increasing the number of various departmental staff, in order to expand the customer base and increase our market share. With its growth in production, sales, and profits, the Company has maintained its position as one of the largest containerboard producers in China.

The Company's four production lines at its Dongguan mill ran at close to full capacities in the first six months. With increased production, sales and net profit grew by 106% and 51% respectively over the same period last year.

For the six months ended 30 September 2003, the Group's profit attributable to shareholders amounted to HK\$137.9 million, representing an increase of approximately 51% as compared to HK\$91.6 million in the corresponding period last year. Turnover for the Group increased from HK\$387.0 million to HK\$798.6 million, representing an increase of 106% over the corresponding period last year. The earnings per share for the period was HK24.30 cents when compared with HK16.29 cents for the corresponding period last year.

## OUTLOOK

At present, China is being praised as the "World Factory". With its manufacturing sector getting stronger and the demand of paper products shows an upward trend, the Management of the Company believes that the market conditions for containerboard will continue to be good. The first phase of development at the Company's Changshu mill was completed and our fifth production line (PM5), which has a capacity of 200,000 metric tons per year will start production in mid December 2003. The second phase of development, on the other hand, will bring up our sixth production line (PM6) in operation, which has a capacity of 350,000 metric tons per year, is expected to commence production in the third quarter of 2004. These two additional production lines will bring the Company's total annual capacity to approximately 1,200,000 metric tons. In view of the above, the Directors believe that these two production lines should nevertheless contribute to the Company's sales turnover and profit in the near future.

With favorable market conditions, enhanced competitiveness in its production lines, an increased number of customers, and an introduction of a new production line, the management and staff feels confident to achieve better results.

## RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the six months ended 30 September 2003 was HK\$798.6 million and HK\$137.9 million, representing an increase of 106% and 51%, as compared to HK\$387.0 million and HK\$91.6 million, respectively, for the corresponding period last year. The earnings per share for the period was HK24.30 cents when compared with HK16.29 cents for the corresponding period last year.

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

## DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Group's distribution costs and administrative expenses increased by approximately 202% and 116% from HK\$4.4 million and HK\$14.9 million for the six months ended 30 September 2002 to HK\$13.3 million and HK\$32.5 million for the six months ended 30 September 2003 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period. As part of our marketing and growth strategy, sales to customers in the Yantze River Delta region by the Dongguan mill was increased during the period and, accordingly, additional transportation cost has to be incurred.

## INTEREST EXPENSES

The Group's interest expenses increased by approximately 17% from HK\$7.3 million for the six months ended 30 September 2002 to HK\$8.5 million for the six months ended 30 September 2003. The increase in interest expenses was mainly due to the increase in the average amount of outstanding bank loans during the period.

## INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products decreased from 104 days and 27 days, respectively, for the year ended 31 March 2003 to 82 days and 4 days, respectively, for the six months ended 30 September 2003. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 45 days for the six months ended 30 September 2003 as compared to 55 days for the year ended 31 March 2003. 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 decreased from 31 days for the year ended 31 March 2003 to 16 days for the six months ended 30 September 2003 as the Group settled part of its creditor balance with surplus cash near the period end.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 30 September 2003 was HK\$1,382 million (31 March 2003: HK\$495 million). As at 30 September 2003, the Group had current assets of HK\$832 million (31 March 2003: HK\$458 million) and current liabilities of HK\$1,200 million (31 March 2003: HK\$631 million). The current ratio was 0.69 as at 30 September 2003 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. During the six months ended 30 September 2003, all shareholders' loan was settled by way of bank borrowings. As at 30 September 2003, the Group had outstanding bank borrowings of HK\$1,008 million (31 March, 2003: outstanding bank borrowings of HK\$441 million and shareholders' loan of HK\$795 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 0.48 as at 30 September 2003 as a result of the net proceeds raised from the Global Offering.

Subsequent to 30 September 2003, the Company raised an additional fund of HK\$368.7 million as a result of the exercise of over-allotment option and share options.

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

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 September 2003. During the six months ended 30 September 2003, the Group do not employ any financial instrument for hedging purposes.

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering, after deduction of related expenses, of HK\$749 million will be 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.

### EMPLOYEES

As at 30 September 2003, the Group had a workforce of more than 1,800 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 experience 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.



**PRE-IPO SHARE OPTION SCHEME**

At 30 September 2003, the particulars of the options held by each of the directors of the Company, the other employees of the Company in aggregate and other participants and which were granted on 11 September 2003 under the Pre-IPO Share Option Scheme of the Company at the offer price of HK\$4.17 were as follows:

<b>Grantee</b>	<b>Number of share options held/ outstanding at 30/9/2003</b>	<b>Exercise period</b>
Tan Siak Him, Alexander	3,000,000	27/3/2004 – 25/9/2006
Heng Kwoo Seng	1,800,000	27/3/2004 – 25/9/2006
Wong Kai Tung, Tony	1,000,000	27/3/2004 – 25/9/2006
Gold Best	61,000,000	26/9/2003 – 25/9/2006
Other employees	5,900,000	27/3/2004 – 25/9/2006
Others	2,300,000	27/3/2004 – 25/9/2006

Save and except for Gold Best, all other holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options as follows:

27/3/2004 – 25/9/2004	up to 50% of options granted
Until 25/9/2005	up to 75% of options granted
Until 25/9/2006	up to 100% of options granted

The consideration paid by each grantee for options granted to them was HK\$1.00.

No options were exercised to subscribe for Shares of the Company from the date of grant to 30 September 2003.

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

As at 30 September 2003, 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 SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 or 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 Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange are as follows:

### (a) Long positions in Shares

Name of Director	Capacity	Number of Shares	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of issued shares
Lee Wan Keung, Patrick	Founder of a discretionary trust and discretionary object	562,500,000 (Note)	61,000,000	83.13
Lee Man Chun, Raymond	Discretionary object	562,500,000 (Note)	61,000,000	83.13
Tan Siak Him, Alexander	personal	Nil	3,000,000	0.40%
Heng Kwoo Seng	personal	Nil	1,800,000	0.24%
Wong Kai Tung, Tony	personal	Nil	1,000,000	0.13%

Note: These Shares will be held by 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), certain of their family members and other charitable objects. Under the SFO, Mr. Lee Wan Keung, Patrick is also the founder of The Fortune Star 1992 Trust. This includes Shares which are subject to the Stock Borrowing Agreement.

**(b) Short positions in Shares**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Shares subject to the short position</b>	<b>Approximate percentage of issued Shares</b>
Lee Wan Keung, Patrick	Founder of a discretionary trust	103,124,000 (Note)	13.75
Lee Man Chun, Raymond	Discretionary Object	103,124,000 (Note)	13.75

*Note:* These short positions are the result of:— (i) the Company having issued options over 75,000,000 Shares under the Pre-IPO Share Option Scheme and since Gold Best owns more than one-third of the issued Shares, it is deemed to be interested in such short positions. Gold Best is wholly 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), certain of the family members and other charitable objects. Under the SFO, Mr. Lee Wan Keung, Patrick is also the founder of The Fortune Star 1992 Trust; and (ii) Gold Best having entered into the Stock Borrowing Agreement.

**(c) Long positions in shares of the associated corporations of the Company**

<b>Name of Director</b>	<b>Capacity</b>	<b>Name of associated company</b>	<b>Number of shares</b>	<b>Percentage of the issued shares of the associated company</b>
Lee Wan Keung, Patrick	Founder of a discretionary trust and discretionary object	Gold Best	5 (Note)	100%
Lee Man Chun, Raymond	Discretionary object	Gold Best	5 (Note)	100%

*Note:* As Gold Best owns more than 50% 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), certain of their family members and other charitable objects.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to any Director or chief executive of the Company, as at 30 September 2003, the following persons (other than a Director or chief executive of the Company) have an interest or short position in the Shares or underlying shares of the Company which, fall to be disclosed to the Company under the provisions of Division 2 and 3 and Part XV of the SFO:

### (a) Long positions in Shares

Name	Capacity	Number of Shares	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of issued shares
Gold Best	Beneficial	562,500,000	61,000,000	83.13
Newcourt Trustees	Corporate	562,500,000	61,000,000	83.13
Lee Wong Wai Kuen	Family	562,500,000 (Note)	61,000,000	83.13

Note: Under the SFO, Lee Wong Wai Kuen is deemed to be interested in the Shares as she is the spouse of Lee Wan Keung, Patrick, the chairman and Director. Under the SFO, Mr. Lee Wan Keung, Patrick is also a founder of The Fortune Star 1992 Trust.

### (b) Short positions in Shares

Name	Capacity	Number of Shares subject to the short position	Approximate percentage of issued Shares
Gold Best	Corporate/Beneficial	103,124,000 (Note)	13.75%
Newcourt Trustees	Corporate	103,124,000 (Note)	13.75%
Lee Wong Wai Kuen	Family	103,124,000 (Note)	13.75%

Note: These short positions are the result of:— (i) the Company having issued options over 75,000,000 Shares under the Pre-IPO Share Option Scheme and since Gold Best owns more than one-third of the issued Shares, it is deemed to be interested in such short positions. Gold Best is wholly 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), certain of the family members and other charitable objects. Under the SFO, Mr. Lee Wan Keung, Patrick is also the founder of The Fortune Star 1992 Trust; and (ii) Gold Best having entered into the Stock Borrowing Agreement.

Apart from the interests disclosed above, as at 30 September 2003, no persons or corporation had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as having an interest in 5 per cent. or more of the issued shares of the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited interim financial statements for the six months ended 30 September 2003.

### **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part, in compliance with the Code of Best Practice as set out in the Rules Governing the listing of Securities by the Stock Exchange at any time during the six months ended 30 September 2003.

On behalf of the Board  
**Lee Wan Keung**  
*Chairman*

Hong Kong, 1 December 2003