



理文造紙有限公司*
Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2314)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

FINANCIAL HIGHLIGHTS

— Turnover increased by 57.5% to HK\$1,258 million
— Profit attributable to shareholders increased by 40.9% to HK\$194 million

INTERIM RESULTS

The board of directors of Lee & Man Paper Manufacturing Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

		Six months ended 30 September 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,257,701	798,631
Cost of Sales		(988,001)	(610,083)
Gross Profit		269,700	188,548
Other Operating Income		3,114	6,730
Distribution costs		(21,961)	(13,298)
Administrative expenses		(49,699)	(32,519)
Profit from operations	3	201,154	149,461
Interest on bank borrowings wholly repayable within 5 years		(4,036)	(8,533)
Profit before taxation		197,118	140,928
Taxation	4	(2,830)	(3,000)
Profit for the period		194,288	137,928
Interim dividend		—	—
Earnings per share (HK cents)	5		
— Basic		20.31	24.30
— Diluted		20.22	24.15

Notes:

1. Basis of preparation and principal accounting policies

The condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention. 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 2004.

2. Segmental Information

Business Segments

No business segment analysis is provided as over 90% 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 Six months ended 30 September		Contribution to profit from operations Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC other than Hong Kong	586,163	283,504	93,663	52,893
Export sales delivered in the PRC*	613,040	504,907	97,958	94,530
Others	58,498	10,220	9,347	1,843
	1,257,701	798,631	200,968	149,266
Interest income			186	195
Finance costs			(4,036)	(8,533)
Profit before taxation			197,118	140,928
Taxation			(2,830)	(3,000)
Profit attributable to shareholders			194,288	137,928

* 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

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	1,140	1,231
Other staff costs	26,490	19,992
Retirement benefits scheme contributions	518	458
Total staff costs	28,148	21,681
Depreciation and amortization	35,634	24,725
Loss on disposal of property, plant and equipment	15	34
Loss on write-off of property, plant and equipment	7,312	—
Operating lease rentals in respect of land and buildings	522	397

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

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

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

5. Earnings per share

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

	For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	194,288	137,928
Number of shares		Number of shares
Weighted average number of share for the purpose of basic earnings per share	956,612,765	567,622,950
Potential dilutive effect arising from over-allotment option and share options	4,374,933	3,509,968
Weighted average number of share for the purpose of diluted earnings per share	960,987,698	571,132,918

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: nil).

BUSINESS REVIEW & OUTLOOK

For the first six months of 2004/2005, the group achieved revenue of HK\$1,257.7 million and net profit of HK\$194.3 million on 438,430 tons of paper sold. This represents an increase in revenue of 57.5% and an increase in net profit of 40.9% over the same period last year. The growth in capacity and profit in the first half of this financial year came mostly from contributions from our PM5 at Changshu mill, which started production in January 2004. PM5 is now running at full capacity (of 200,000MT/year) and we expect it to make further contributions to the Group in years to come.

Needless to say, the first six months was not without difficulties for us. The major concerns were the rising coal price, transportation costs and wages. Fortunately, we had been successful in passing the increased cost to our customers. As a result, we maintained our margins.

We are optimistic about achieving better results in the next six months. We expect contributions from PM6, our second production line at Changshu, PM6, which has an annual production capacity of 350,000 metric tons of corrugated medium, started operation in September 2004. It brings the Group's total containerboard output capacity to 1.2 million metric tons, making the Group one of the largest containerboard producers in the world.

Looking ahead, the Group will forge ahead with its next main development project — the construction of its third production plant located at Dongguan Hongmei, which will allow it to capture the continuously growing demand for quality containerboard in the Pearl River Delta region. We committed to purchasing land and production machine in early 2004 and staff members who are responsible for the project are now following up on construction of the plant. Scheduled to start operation in the fourth quarter of 2005, PM7 at Dongguan Hongmei will have an annual production capacity of 400,000 metric tons of linerboard, and increase the Group's total containerboard production capacity to 1.6 million metric tons. The Group anticipates the further strengthening of its position in the world containerboard market and impressive profit achievements.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30 September 2004 was HK\$1,257.7 million and HK\$194.3 million, representing an increase of 57.5% and 40.9%, as compared to HK\$798.6 million and HK\$137.9 million, respectively, for the corresponding period last year. The earnings per share for the period was HK20.31 cents when compared with HK24.30 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 with the commencement of the 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 65.1% and 52.8% from HK\$13.3 million and HK\$32.5 million for the six months ended 30 September 2003 to HK\$22.0 million and HK\$49.7 million for the six months ended 30 September 2004 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period.

Interest expenses

The Group's interest expenses decreased by approximately 52.7% from HK\$8.5 million for the six months ended 30 September 2003 to HK\$4.0 million for the six months ended 30 September 2004. The decrease in interest expenses was mainly due to the decrease in the average amount of outstanding bank loans as a result of the proceeds being received from the top-up placing and subscription during the period.

Inventories, debtors' and creditors' turnover

The inventory turnover of the Group's raw materials and finished products decreased from 113 days and 7 days, respectively, for the year ended 31 March 2004 to 79 days and 6 days, respectively, for the six months ended 30 September 2004. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 47 days for the six months ended 30 September 2004 as compared to 62 days for the year ended 31 March 2004. 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 34 days for the year ended 31 March 2004 to 16 days for the six months ended 30 September 2004 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 2004 was HK\$2,816 million (31 March 2004: HK\$1,903 million). As at 30 September 2004, the Group had current assets of HK\$1,088 million (31 March 2004: HK\$1,270 million) and current liabilities of HK\$669 million (31 March 2004: HK\$888 million). The current ratio was 1.63 as at 30 September 2004 as compared to 1.51 at 31 March 2004.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 September 2004, the Group had outstanding bank borrowings of HK\$632 million (31 March, 2004: outstanding bank borrowings of HK\$888 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.47 as at 31 March 2004 to 0.20 as at 30 September 2004 as a result of the net proceeds raised from the top-up placing and subscription.

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 2004. During the six months ended 30 September 2004, the Group has not employed any financial instrument for hedging purposes.

Use of proceeds from the top-up placing and subscription

The net proceeds from the Placement and Subscription which was completed in April 2004, were approximately HK\$804 million and were 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 year. The proceeds from the Placement and Subscription not immediately applied towards the purchase of paper machine VII have been employed as general working capital.

Employees

As at 30 September 2004, the Group had a workforce of more than 2,300 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.

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 2004.

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 2004.

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 Listing Rules at any time during the six months ended 30 September 2004, except that the Company is not in compliance with Rule(s) 3.10 and 3.21 of the Listing Rules in connection with the requirements to meet the number of independent non-executive directors and the number of members of audit committee. The Company is now taking steps to identify suitable candidate for appointment as independent non-executive director as soon as possible.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
Lee Wan Keung, Patrick
Chairman

Hong Kong, 24 November 2004

As at the date of this announcement, the Board comprises of 4 executive directors, namely, Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond, Mr. Lee Man Bun and Mr. Tan Siak Him, Alexander and 2 independent non-executive directors, namely, Mr. Heng Kwo Seng and Mr. Wong Kai Tung, Tony.

* For identification purposes only