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 2012

FINANCIAL HIGHLIGHTS

– Revenue decreased by 1.9% to HK$7,224 million as compared to the last corresponding period.

– Net profit increased by 4.3% to HK$674 million as compared to the last corresponding period.

– Earnings per share was HK14.38 cents.

– Declared interim dividend of HK5.0 cents per share.

* *For identification purposes only*

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 2012 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

	Notes	**2012 (unaudited) *HK$'000***	2011 (unaudited) *HK$'000*
Revenue	*3*	**7,223,721**	7,360,334
Cost of sales		**(6,114,904)**	(6,351,623)
Gross profit		**1,108,817**	1,008,711
Other income		**148,559**	151,999
Net loss from fair value changes of derivative financial instruments		**(894)**	(4,055)
Distribution and selling expenses		**(124,389)**	(111,026)
Administrative expenses		**(305,048)**	(275,317)
Finance costs	*4*	**(50,252)**	(45,072)
Profit before tax		**776,793**	725,240
Income tax expense	*5*	**(102,541)**	(78,564)
Profit for the period	*6*	**674,252**	646,676
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operations		**(114,896)**	290,617
Net adjustment of hedging reserve reclassified to profit or loss		**–**	26,013
Other comprehensive (expense) income for the period		**(114,896)**	316,630
Total comprehensive income for the period		**559,356**	963,306
Dividends:	*7*		
– Final dividend paid		**243,860**	375,170
– Interim dividend declared		**234,481**	225,102
		HK cents	*HK cents*
Earnings per share	*8*		
– Basic		**14.38**	13.79
– Diluted		**14.29**	13.68

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012

	Notes	30 September 2012 (unaudited) HK$'000	31 March 2012 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**17,797,567**	16,923,134
Prepaid lease payments		**522,951**	494,704
Deposits paid for acquisition of property, plant and equipment and land use rights		**2,596**	143,213
Interest in a JCE		**25**	25
Loan to a JCE		**50,740**	9,400
Tax recoverable		**52,670**	39,670
Retirement benefit assets		**988**	988
		18,427,537	17,611,134
CURRENT ASSETS			
Inventories	10	**2,697,095**	3,124,245
Prepaid lease payments		**10,396**	10,956
Trade and other receivables	11	**4,918,905**	5,241,830
Amounts due from related companies		**19,991**	19,531
Derivative financial instruments		**–**	867
Restricted bank deposits		**966**	972
Bank balances and cash		**723,907**	731,498
		8,371,260	9,129,899
CURRENT LIABILITIES			
Derivative financial instruments		**2**	9,434
Trade and other payables	12	**2,707,267**	3,127,287
Amount due to a substantial shareholder		**–**	7,626
Tax payable		**51,051**	66,159
Bank borrowings		**3,470,389**	2,895,518
		6,228,709	6,106,024
NET CURRENT ASSETS		**2,142,551**	3,023,875
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,570,088**	20,635,009

	Notes	30 September 2012 (unaudited) HK$'000	31 March 2012 (audited) HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings		**6,236,450**	6,663,795
Deferred tax liabilities		**519,929**	473,001
		6,756,379	7,136,796
		13,813,709	13,498,213
CAPITAL AND RESERVES			
Share capital		**117,241**	117,241
Reserves		**13,696,468**	13,380,972
		13,813,709	13,498,213

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

Six months ended 30 September 2012

	Packaging Paper *HK$'000*	Pulp *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	**7,027,237**	**196,484**	**7,223,721**	**–**	**7,223,721**
Inter-segment sales	**–**	**39,852**	**39,852**	**(39,852)**	**–**
	7,027,237	**236,336**	**7,263,573**	**(39,852)**	**7,223,721**
SEGMENT PROFIT	**821,780**	**5,855**	**827,635**	**–**	**827,635**
Net loss from fair value changes of derivative financial instruments					**(894)**
Unallocated income					**10,065**
Unallocated expenses					**(9,761)**
Finance costs					**(50,252)**
Profit before tax					**776,793**

Six months ended 30 September 2011

	Packaging Paper *HK$'000*	Pulp *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	7,085,648	274,686	7,360,334	–	7,360,334
Inter-segment sales	–	47,363	47,363	(47,363)	–
	7,085,648	322,049	7,407,697	(47,363)	7,360,334
SEGMENT PROFIT	724,059	25,972	750,031	–	750,031
Net loss from fair value changes of derivative financial instruments					(4,055)
Unallocated income					28,288
Unallocated expenses					(3,952)
Finance costs					(45,072)
Profit before tax					725,240

4. FINANCE COSTS

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**120,076**	101,688
Less: amounts capitalised to property, plant and equipment	**(69,824)**	(56,616)
	50,252	45,072

5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Income tax recognised in profit or loss:		
Current tax		
– PRC Enterprise Income Tax	**55,613**	32,902
Deferred tax		
– Charge to profit or loss	**46,928**	45,662
	102,541	78,564

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

PRC

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

Under the Law of the PRC on EIT and its Implementation Regulations (the "EIT Law"), the statutory tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Those subsidiaries which are entitled to Tax Holidays will be subject to the statutory tax rate of 25% upon expiry of the Tax Holidays except as follows:

The tax exemption period of Tax Holidays of Jiangsu Lee & Man Paper Manufacturing Company Limited ("Jiangsu Lee & Man") expired on 31 December 2006 and it was subject to a reduced tax rate of 10%, 22% and 24% for the calendar years of 2009, 2010 and 2011, respectively. However, subsequently, on 2 August 2011, Jiangsu Lee & Man was qualified as a Jiangsu Province New and High Technical Enterprise (江蘇省高新技術企業) and is therefore entitled to a concessionary EIT rate of 15% for three calender years starting 1 January 2011.

The tax exemption period of Tax Holidays of Guangdong Lee & Man Paper Manufacturing Limited ("Guangdong Lee & Man") expired on 31 December 2008 and its applicable preferential tax rate for the three calender years ended 31 December 2011, i.e. 12.5%. In addition, (i) during the calender year ended 31 December 2010, Guangdong Lee & Man was entitled to tax credits calculated at 40% of the relevant costs of qualified plant and equipment acquired in the PRC and as approved by the relevant tax authority; and (ii) for the calender year ending 31 December 2012, Guangdong Lee & Man is entitled to a concessionary EIT rate of 15% as it has been qualified as a Guangdong Province New and High Technical Enterprise (廣東省高新技術企業).

The tax exemption period of Tax Holidays of Chongqing Lee & Man Paper Manufacturing Limited ("Chongqing Lee & Man") expired on 31 December 2009 and it is entitled to be taxed at 50% of the applicable rate for the three calender years ending 31 December 2012 of which, in the calendar years of 2011 and 2012, Chongqing Lee & Man's taxable profit is to be taxed at half of the concessionary EIT rate of 15%, i.e. 7.5%, as part of the China Western Development (西部大開發) tax concessions. In addition, during the calender year ended 31 December 2011, Chongqing Lee & Man was entitled to tax credits calculated at 40% of the relevant costs of qualified plant and equipment acquired in the PRC and as approved by the relevant tax authority.

On 14 December 2009, Dongguan Lee & Man Paper Factory Co Ltd ("Dongguan Lee & Man") was qualified as a Guangdong Province New and High Technical Enterprise (廣東省高新技術企業) and was therefore entitled to a concessionary EIT rate of 15% for three calender years ended 31 December 2011. Dongguan Lee & Man is subject to EIT at 25% starting 1 January 2012.

Macau

The Macau subsidiaries incorporated under Decree-Law no.58/99/M are exempted from Macau complementary tax (Macau income tax) as long as they comply with the relevant regulations and do not sell their products to a Macau resident.

Vietnam

The Vietnam subsidiaries are subjected to Vietnam Corporate Income Tax at a maximum rate of 25%. No provision for Vietnam Corporate Income Tax has been made for both periods as the Vietnam subsidiaries incurred losses for both periods.

Hong Kong

During the year ended 31 March 2010, the Hong Kong Inland Revenue Department ("IRD") commenced a field audit on the Hong Kong tax affairs of certain subsidiaries of the Company. Since then the IRD has issued protective profits tax assessments against these subsidiaries in the aggregate amount of HK$257,075,000 for the years of assessment 2003/2004, 2004/2005, and 2005/2006 (i.e. the three financial years ended 31 March 2006). These protective profits tax assessments were subsequently held over by the IRD completely after the Group purchased tax reserve certificates of HK$52,670,000.

The directors believe that no provision for Hong Kong Profits Tax in respect of the above mentioned protective assessments is necessary. In addition, as far as the directors are aware, the inquiries from the IRD are still at a fact-finding stage and the IRD has not yet expressed any formal opinion on the potential tax liability, if any, because the tax investigation has not completed.

Other

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Directors' emoluments	**3,060**	6,124
Staff salaries and other benefits, excluding those of directors	**285,354**	231,767
Contributions to retirement benefit schemes, excluding those of directors	**25,881**	19,011
Total employee benefit expense	**314,295**	256,902
Amortisation of prepaid lease payments	**5,230**	4,500
Cost of inventories recognised as expense	**6,114,904**	6,351,623
Depreciation of property, plant and equipment	**308,832**	270,625
Loss on disposal of property, plant and equipment	**2,161**	4,207
Net foreign exchange loss	**3,429**	–
Operating lease rentals in respect of land and buildings	**3,690**	2,915
and after crediting (in other income):		
Income from supply of steam and electricity	**40,548**	50,980
Income from wharf cargo handling	**22,292**	24,250
Interest income from banks	**10,065**	4,929
Net foreign exchange gains	**–**	23,358
Value added tax and other tax refund	**20,530**	31,326

7. DIVIDENDS

A final dividend of HK$0.052 per share was paid in respect of the year ended 31 March 2012 (2011: HK$0.080 per share was paid for the year ended 31 March 2011) to shareholders during the current period.

The Directors determined that an interim dividend of HK$0.050 per share (2011: HK$0.048 per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 31 December 2012.

8. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**674,252**	646,676

	2012	2011
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,689,622,980**	4,689,622,980
Effect of dilutive potential ordinary shares:		
Share options	**28,993,698**	37,651,509
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,718,616,678**	4,727,274,489

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, there were additions of HK$1,197 million (six months ended 30 September 2011: HK$1,258 million) to property, plant and equipment to expand its operations.

10. INVENTORIES

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
Raw materials	**2,021,835**	2,518,015
Finished goods	**675,260**	606,230
	2,697,095	3,124,245

11. TRADE AND OTHER RECEIVABLES

	30 September 2012 HK$'000	31 March 2012 HK$'000
Trade receivables	**1,953,905**	2,102,577
Less: allowance for doubtful debt	**–**	(14,849)
	1,953,905	2,087,728
Bills receivables	**1,498,186**	1,944,808
	3,452,091	4,032,536
Prepayments and deposits for purchase of raw materials	**634,677**	559,515
Other deposits and prepayments	**292,640**	115,533
VAT receivables	**361,546**	426,565
Other receivables	**177,951**	107,681
	4,918,905	5,241,830

The Group allows its customers an average credit period of 45 to 90 days. The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period.

	30 September 2012 HK$'000	31 March 2012 HK$'000
Aged:		
Less than 30 days	**2,661,703**	3,345,194
31 – 60 days	**622,609**	563,536
61 – 90 days	**118,307**	81,818
91 – 120 days	**15,441**	23,194
Over 120 days	**34,031**	18,794
	3,452,091	4,032,536

12. TRADE AND OTHER PAYABLES

	30 September 2012 HK$'000	31 March 2012 HK$'000
Trade and bills payables	**2,024,614**	2,454,913
Construction fee payable	**234,121**	286,405
Accruals	**134,557**	160,614
Receipt in advance	**204,534**	132,120
Other payables	**109,441**	93,235
	2,707,267	3,127,287

The average credit period taken for trade purchases ranges from 30 to 120 days. The following is an aged analysis of the trade and bills payables presented based on the invoice date at the end of the reporting period.

	30 September 2012 *HK$'000*	31 March 2012 *HK$'000*
Aged:		
Less than 30 days	**822,686**	893,370
31–60 days	**580,753**	668,137
61–90 days	**328,921**	583,127
91–120 days	**279,405**	292,963
Over 120 days	**12,849**	17,317
	2,024,614	2,454,914

13. REVIEW OF INTERIM ACCOUNTS

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

BUSINESS REVIEW AND OUTLOOK

The Group achieved revenue of HK$7,224 million for the six months ended 30 September 2012 and the half year net profit was HK$674 million. Due to market downturn and fierce competition, although the Group expanded its production capacity and sales volume increased by 15% during the period, the drop in product sales price resulted in a reduction in overall revenue and the average profits per ton was less as compared to that in the past.

The production line of coated duplex board ("PM17"), the Group's new species with annual capacity of 600,000 tons has put into operation in August this year. At the same time, the Group is actively constructing its fifth paper production industrial park located at Ruichang City of Jiangxi Province, which will allow it to capture the demand for quality containerboard in the central and western part of China. The production line of our PM18 paper machine at Jiangxi plant with annual capacity of 350,000 tons is expected to begin operation before March 2013. We believe the additional capacities from the above two new production machines will give contribution to the Group in the future.

As at 30 September 2012, the Group's net gearing ratio was 65% which is considered to be a reasonable and affordable debt level. With the rise of the light industries in countries such as Vietnam, Myanmar and Laos, the Group will start its PM20 paper machine in Vietnam with annual capacity of 400,000 tons and plan to start operation by end of 2013; this plays the role of investment diversification.

As a result of the environmental issues, the closure of inferior capacities has been continued and had been cancelled out the effect of overcapacity within the domestic paper industry. The Group will continue its efforts in developing new markets, controlling costs closely and optimizing its capital structure in order to maximize the investment returns for the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to equity holder of the Company for the six months ended 30 September 2012 was HK$7,224 million and HK$674 million respectively, representing a decrease of 1.9% and an increase of 4.3%, as compared to HK$7,360 million and HK$647 million respectively, for the corresponding period last year. The earnings per share for the period was HK14.38 cents as compared to HK13.79 cents for the corresponding period last year.

The Group's containerboard sales volume was increased by over 15% as a result of the full commercial operation of PM15 and PM16 during the period. However the average selling price was decreased and therefore lowered both revenue and net margin per ton.

Distribution and Selling Expenses and Administrative Expenses

The Group's distribution and selling expenses and administrative expenses increased by approximately 12.0% and 10.8% respectively, from HK$111 million and HK$275 million for the six months ended 30 September 2011 to HK$124 million and HK$305 million for the six months ended 30 September 2012, respectively, mainly as a result of the expansion in the operation of the Group and the increase of staff costs during this period. The distribution and selling expenses and administrative expenses represented about 1.7% and 4.2% of the revenue respectively, for the six months ended 30 September 2012, and were both slightly increased as compared to the corresponding period last year.

Finance Costs

The Group's total borrowing costs (including the amounts capitalized) increased by approximately 18.1% from HK$102 million for the six months ended 30 September 2011 to HK$120 million for the six months ended 30 September 2012. The increase was mainly due to the increase in average amount of outstanding bank borrowings during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 67 days and 16 days, respectively, for the six months ended 30 September 2012 as compared to 80 days and 17 days, respectively, for the year ended 31 March 2012.

The Group's debtors' turnover days were 49 days for the six months ended 30 September 2012 as compared to 52 days for the year ended 31 March 2012. This is in line with the credit terms of 45 days to 90 days granted by the Group to its customers.

The Group's creditors' turnover days were 74 days for the six months ended 30 September 2012 as compared to 78 days for the year ended 31 March 2012 and is in line with the credit terms granted by the Group's suppliers.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 30 September 2012 was HK$13,814 million (31 March 2012: HK$13,498 million). As at 30 September 2012, the Group had current assets of HK$8,371 million (31 March 2012: HK$9,130 million) and current liabilities of HK$6,229 million (31 March 2012: HK$6,106 million). The current ratio was 1.34 as at 30 September 2012 as compared to 1.50 at 31 March 2012.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Macau, Hong Kong and the PRC. As at 30 September 2012, the Group had outstanding bank borrowings of HK$9,707million (31 March 2012: HK$9,559 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 30 September 2012, the Group maintained bank balances and cash of HK$724 million (31 March 2012: HK$731 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) remained at 0.65 as at 31 March 2012 and 30 September 2012, which is considered to be a healthy and reasonable level. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 September 2012.

During the six months ended 30 September 2012, the Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

EMPLOYEES

As at 30 September 2012, the Group had a workforce of more than 7,800 employees. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.050 (2011: HK$0.048) per share for the six months ended 30 September 2012 to shareholders whose names appear on the Register of Members on 31 December 2012. It is expected that the interim dividend will be paid around 10 January 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 27 December 2012 to 31 December 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accomplished by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on 24 December 2012.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct regarding directors' securities transactions. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the six months ended 30 September 2012. The Model code also applies to other specified senior management of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2012.

AUDIT COMMITTEE

The Audit Committee of the Company comprised of one non-executive director namely Mr Yoshio Haga and three independent non-executive directors namely, Mr Wong Kai Tung Tony, Mr Peter A Davies and Mr Chau Shing Yim David.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control procedures and financial reporting matters including the review of the Group's unaudited interim financial statements for the six months ended 30 September 2012.

On behalf of the Board
Lee Wan Keung Patrick
Chairman

Hong Kong, 20 November 2012

As at the date of this notice, the board of directors of the Company comprises four executive directors, namely Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond, Mr Lee Man Bun and Mr Kunihiko Kashima, two non-executive directors, namely Professor Poon Chung Kwong and Mr Yoshio Haga, and three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Peter A Davies and Mr Chau Shing Yim David.