理 文 造 紙 有 限 公 司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2012

FINANCIAL HIGHLIGHTS

- Revenue increased by 4.9% to HK$14,716 million as compared to the last corresponding year;
- Net profit of HK$1,351 million for current year;
- Working capital cycle reduced from 86 days in last year to 71 days in current year;
- Stable payout ratio of 33-35%, with proposed final dividend of HK5.2 cents per share.

* *For identification purposes only*

ANNUAL RESULTS

The Board of Directors (the "Board") of Lee & Man Paper Manufacturing Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2012 ("FY12") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Revenue	*3*	**14,715,553**	14,034,285
Cost of sales		**(12,652,109)**	(11,452,435)
Gross profit		**2,063,444**	2,581,850
Other income		**429,827**	335,883
Share of profit of a jointly controlled entity ("JCE")		**6**	–
Reclassification of cumulative loss from hedge reserves upon early repayment of hedged item		**(15,981)**	–
Net gain from fair value changes of derivative financial instruments		**1,630**	3,138
Distribution and selling expenses		**(236,405)**	(209,429)
Administrative expenses		**(605,869)**	(519,991)
Finance costs		**(99,901)**	(207,325)
Profit before tax		**1,536,751**	1,984,126
Income tax expense	*4*	**(185,302)**	(136,147)
Profit for the year	*5*	**1,351,449**	1,847,979
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**388,750**	582,506
Net adjustment of hedging reserve reclassified to profit or loss		**52,361**	61,611
Other comprehensive income for the year		**441,111**	644,117
Total comprehensive income for the year		**1,792,560**	2,492,096
Profit for the year attributable to:			
Owners of the Company		**1,351,449**	1,847,979
Total Comprehensive income attributable to:			
Owners of the Company		**1,792,560**	2,492,096
		HK cents	*HK cents*
Earnings per share			
– Basic	*7*	**28.82**	40.13
– Diluted		**28.61**	39.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2012

	Notes	**2012** **HK$'000**	2011 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**16,923,134**	13,953,105
Prepaid lease payments		**494,704**	471,121
Deposits paid for acquisition of property, plant and equipment and land use rights		**143,213**	225,237
Interest in a JCE		**25**	–
Loan to a JCE		**9,400**	–
Tax recoverable		**39,670**	39,670
Retirement benefit assets		**988**	914
		17,611,134	14,690,047
CURRENT ASSETS			
Inventories		**3,124,245**	2,966,738
Prepaid lease payments		**10,956**	9,873
Trade and other receivables	*8*	**5,241,830**	4,075,048
Amounts due from related companies		**19,531**	22,271
Derivative financial instruments		**867**	809
Tax recoverable		**–**	80,614
Restricted bank deposits		**972**	949
Bank balances and cash		**731,498**	1,228,116
		9,129,899	8,384,418
CURRENT LIABILITIES			
Derivative financial instruments		**9,434**	46,530
Trade and other payables	*9*	**3,127 287**	2,315,304
Amount due to a substantial shareholder		**7,626**	–
Tax payable		**66,159**	54,393
Bank borrowings		**2,895,518**	2,703,696
		6,106,024	5,119,923
NET CURRENT ASSETS		**3,023,875**	3,264,495
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,635,009**	17,954,542

	2012	2011
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Derivative financial instruments	**–**	9,456
Bank borrowings	**6,663,795**	5,284,910
Deferred tax liabilities	**473,001**	360,363
	7,136,796	5,654,729
	13,498,213	12,299,813
CAPITAL AND RESERVES		
Share capital	**117,241**	117,241
Reserves	**13,380,972**	12,182,572
	13,498,213	12,299,813

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised Standards, Amendments and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2011
HKAS 24 (as revised in 2010)	Related Party Disclosures
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Amendments to HK (IFRIC) – Int 14 Prepayments of a Minimum Funding Requirement

The Interpretation addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of HKAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.

The application of other new and revised HKFRSs in the current year also has had no material effect on the amounts reported in these consolidated financial statement.

New and revised Standards, Amendments and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for the Group's annual period beginning on 1 April 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 April 2014, with retrospective application required.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group's annual period beginning on 1 April 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

HKAS 19 (as revised in 2011) Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for the Group's annual period beginning on 1 April 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of the amendments to HKAS 19 will have impact on amounts reported in respect of the Groups' defined benefit plans as the Group will change its accounting policies on the recognition of actuarial gains and losses and past service costs. The directors anticipate that the application of the amendments will have no material impact on the consolidated financial statements.

The directors of the Company anticipate that the application of the other new or revised HKFRSs will have no material impact on the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. REVENUE AND SEGMENT INFORMATION

Segment revenues and results

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

	Packaging paper *HK$'000*	Pulp *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
For the year ended 31 March 2012					
REVENUE					
External sales	**14,336,951**	**378,602**	**14,715,553**	**–**	**14,715,553**
Inter-segment sales	**–**	**124,451**	**124,451**	**(124,451)**	**–**
	14,336,951	**503,053**	**14,840,004**	**(124,451)**	**14,715,553**
SEGMENT PROFIT	**1,579,801**	**25,576**	**1,605,377**	**–**	**1,605,377**
Net gain from fair value changes of derivative financial instruments					**1,630**
Reclassification of cumulative loss from hedge reserves upon early repayment of hedged item					**(15,981)**
Share of profit of a JCE					**6**
Unallocated income					**51,480**
Unallocated expenses					**(5,860)**
Finance costs					**(99,901)**
Profit before tax					**1,536,751**
For the year ended 31 March 2011					
REVENUE					
External sales	13,341,879	692,406	14,034,285	–	14,034,285
Inter-segment sales	–	100,589	100,589	(100,589)	–
	13,341,879	792,995	14,134,874	(100,589)	14,034,285
SEGMENT PROFIT	2,056,733	82,508	2,139,241	–	2,139,241
Net gain from fair value changes of derivative financial instruments					3,138
Unallocated income					54,183
Unallocated expenses					(5,111)
Finance costs					(207,325)
Profit before tax					1,984,126

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of net gain from fair value changes of derivative financial instruments, reclassification of cumulative loss from hedge reserves upon early repayment of hedged item, share of profit of a JCE, interest income, net exchange gain, gain on disposal of interest in an associate, finance costs and other unallocated income and expenses. This is the measure reported to the board of directors for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Packaging paper *HK$'000*	**Pulp** *HK$'000*	**Consolidated** *HK$'000*
2012			
Segment assets	**23,932,759**	**1,883,543**	**25,816,302**
Unallocated assets			**924,731**
Consolidated total assets			**26,741,033**
Segment liabilities	**2,424,285**	**38,256**	**2,462,541**
Unallocated liabilities			**10,780,279**
Consolidated total liabilities			**13,242,820**
2011			
Segment assets	20,247,579	1,274,007	21,521,586
Unallocated assets			1,552,879
Consolidated total assets			23,074,465
Segment liabilities	1,795,889	29,351	1,825,240
Unallocated liabilities			8,949,412
Consolidated total liabilities			10,774,652

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to operating segments other than retirement benefit assets, derivative financial instruments, tax recoverable, restricted bank deposits, bank balances and cash and other assets used jointly by reportable segments, and all liabilities are allocated to operating segments other than derivative financial instruments, tax payable, bank borrowings and deferred tax liabilities and other liabilities for which reportable segments are jointly liable.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2012	2011
	HK$'000	*HK$'000*
Packaging paper (including linerboard and corrugating medium)	**14,336,951**	13,341,879
Pulp	**378,602**	692,406
	14,715,553	14,034,285

Geographical information

Over 95% (2011: 95%) of the Group's revenue from external customers are in the PRC.

Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Non-current assets	
	2012	2011
	HK$'000	*HK$'000*
PRC other than Hong Kong	**17,308,399**	14,238,759
Vietnam	**259,068**	407,776
Hong Kong	**42,679**	42,598
	17,610,146	14,689,133

Note: Non-current assets exclude retirement benefit assets.

Information about major customers

None of the Group's customers contributed over 10% of the Group's total revenue for the current year or the prior year.

4. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Income tax recognised in profit or loss:		
Current tax		
– PRC Enterprise Income Tax	**76,054**	95,268
– Overseas income tax	**52**	55
Overprovision in previous year		
– PRC Enterprise Income Tax	**(3,442)**	–
Deferred tax		
– Charge to profit or loss	**127,454**	69,850
– Change in tax rate of certain subsidiaries	**(14,816)**	(29,026)
Total income tax recognised in profit or loss	**185,302**	136,147

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 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 years ended 31 December 2011, i.e. 12.5%. In addition, (i) during the year ended 31 December 2010, Guangdong Lee & Man was entitled to tax deduction 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 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 Company 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 years ending 31 December 2012. In addition, (i) during the year ended 31 December 2011, Chongqing Lee & Man was entitled to tax deduction 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) 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.

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 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 years as the Vietnam subsidiaries incurred losses for both years.

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 of which HK$39,670,000 were purchased up to 31 March 2012 and HK$13,000,000 were purchased subsequent to 31 March 2012.

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.

5. PROFIT FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**12,240**	38,190
Staff salaries and other benefits, excluding those of directors	**497,342**	418,265
Contributions to retirement benefit schemes, excluding those of directors	**41,159**	30,591
Total employee benefit expense	**550,741**	487,046
Amortisation of prepaid lease payments	**9,081**	8,485
Auditor's remuneration	**4,660**	4,294
Cost of inventories recognised as expense	**12,652,109**	11,452,435
Depreciation of property, plant and equipment	**556,765**	544,096
Loss on disposal of property, plant and equipment	**4,785**	1,169
Operating lease rentals in respect of land and buildings	**5,315**	4,437
Allowance for doubtful debts	**14,849**	–

6. DIVIDEND

	2012	2011
	HK$'000	*HK$'000*
Dividends recognised as distribution:		
2011 final dividend of HK$0.080 (2010 final dividend of HK$0.080) per share	**375,170**	364,115
2012 interim dividend of HK$0.048 (2011 interim dividend of HK$0.060) per share	**225,102**	281,378
	600,272	645,493

A final dividend of HK$0.052 per share in respect of the year ended 31 March 2012 (2011: final dividend of HK$0.080 per share in respect of the year ended 31 March 2011) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**1,351,449**	1,847,979

	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**	4,605,481,669
Effect of dilutive potential ordinary shares:		
Share options	**33,722,957**	103,335,070
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,723,345,937**	4,708,816,739

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivables of HK$4,032,536,000 (2011: HK$3,027,264,000).

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.

	2012	2011
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**3,345,194**	2,458,746
31–60 days	**563,536**	422,295
61–90 days	**81,818**	128,562
91–120 days	**23,194**	13,473
Over 120 days	**18,794**	4,188
	4,032,536	3,027,264

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK$2,454,914,000 (2011: HK$1,825,240,000).

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.

	2012	2011
	HK$'000	*HK$'000*
Aged:		
Less than 30 days	**893,370**	862,978
31–60 days	**668,137**	390,059
61–90 days	**583,127**	554,281
91–120 days	**292,963**	14,238
Over 120 days	**17,317**	3,684
	2,454,914	1,825,240

FINAL DIVIDEND

The Directors have proposed a final dividend of HK5.2 cents for the year ended 31 March 2012 (2011: HK8.0 cents) to shareholders whose names appear on the Register of Members on 9 August 2012. The final dividend is subject to approval by the shareholders in the forthcoming annual general meeting. It is expected that the final dividend will be paid around 22 August 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 6 August 2012 to 9 August 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend, all transfers accomplished by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 pm on 3 August 2012.

BUSINESS REVIEW AND OUTLOOK

Business Review

We are very pleased to share with you that the Group achieved revenue of HK$14,716 million for the year ended 31 March 2012 which was slightly increased by 4.9% as compared to last year. The net profit for the year was HK$1,351 million and was decreased by 26.9% as compared to last year. At as 31 March 2012, the Group's net gearing ratio was 65% as a result of the capacity expansion. The Board considers this to be a healthy and reasonable debt level.

Our new production lines, PM 15 and PM 16 have been started in August 2011 and November 2011 respectively; PM 17 (the production line of coated duplex board) will commission production in July 2012. The Group has begun construction of 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. PM18, our production machine at Jiangxi plant, is under construction and is expected to begin operation by March 2013. Within the responsible debt level, the Group will constructively expand its production capacity in order to create favorable conditions in future development.

Outlook

Impacted by external whirlwinds, such as the faltering US and Europe economy and the sovereign debt crisis in Europe; both the performance of the domestic and export market are unsatisfied. Though the Group has been expanding its production capacity, its average selling price has been decreased. The Group was not fully able to pass through the increase in salaries and corresponding production cost to its customers. Hence the existing business environment is still difficult. The Group will continually control costs closely, spreading our production plants in China and expanding its production capacity. When the economy of the global market improves, the Group will be able to deliver better returns to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Revenue and net profit attributable to owners of the Company for the year ended 31 March 2012 was HK$14,716 million and HK$1,351 million, representing an increase of 4.9% and a decrease of 26.9% respectively, as compared to HK$14,034 million and HK$1,848 million, respectively, for last year. The basic earnings per share for the year was HK28.82 cents when compared with HK40.13 cents for last year.

Paper machines PM15 & PM16 were commissioned during the year. The Group's containerboard sales volume was slightly increased while the average selling price was comparable to last year. The substantial increase in the price of waste paper, coal and other raw materials has boosted the operating costs and therefore lowered net margin per tonne.

Distribution and Selling Expenses

The Group's distribution and selling expenses was HK$236 million for the year ended 31 March 2012 as compared to HK$209 million for the year ended 31 March 2011. It represented about 1.6% of the revenue for the year ended 31 March 2012 and was slightly increased as compared to that of 1.5% for the year ended 31 March 2011.

Administrative Expenses

The Group's administrative expenses increased by approximately 16.5% from HK$520 million for the year ended 31 March 2011 to HK$606 million for the year ended 31 March 2012 as a result of the expansion in the operation of the Group and the increase of the staff costs during the year.

Finance Costs

The Group's finance costs was HK$100 million for the year ended 31 March 2012 as compared to HK$207 million for the year ended 31 March 2011. The average interest rate on bank borrowings of the Group decreased during the year, and also the Group monitored the discounting of bills closely in order to reduce the finance costs.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 80 days and 17 days, respectively, for the year ended 31 March 2012 as compared to 82 days and 16 days, respectively, for the year ended 31 March 2011.

The Group's debtors' turnover days were 52 days for the year ended 31 March 2012 as compared to 49 days for the year ended 31 March 2011. 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 78 days for the year ended 31 March 2012 as compared to 61 days for the year ended 31 March 2011. The creditors' turnover days were expected to improve going forward given the Group's higher bargaining power in light of the industry consolidation.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 31 March 2012 was HK$13,498 million (31 March 2011: HK$12,300 million). As at 31 March 2012, the Group had current assets of HK$9,130 million (31 March 2011: HK$8,384 million) and current liabilities of HK$6,106 million (31 March 2011: HK$5,120 million). The current ratio was 1.50 as at 31 March 2012 as compared to 1.64 at 31 March 2011.

The Group generally finances its operations with internally generated cash flow and credit facilities provided by its principal bankers in Hong Kong, Macau and the PRC. As at 31 March 2012, the Group had outstanding bank borrowings of HK$9,559 million (31 March 2011: HK$7,989 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. As at 31 March 2012, the Group maintained bank balances and cash of HK$731 million (31 March 2011: HK$1,228 million). The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.55 as at 31 March 2011 to 0.65 as at 31 March 2012.

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 Hong Kong dollars, Renminbi 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 2012. The Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure.

Employees

As at 31 March 2012, the Group had a workforce of about 7,700 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 Group.

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

The Group has a Share Option Scheme whereby employees of the Group are granted options to acquire shares in the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board of the Company believes that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. During the year under review, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited.

The objectives of the management structures within the Group, headed by the Board and led by the Chairman, are to deliver sustainable value to Shareholders.

The Chairman provides leadership to and oversees the effective functioning of the Board. With support of the Chief Executive Officer and the Company Secretary, the Chairman approves Board meeting agenda, and ensures Directors have proper briefing, and timely receive adequate and reliable information, on all Board matters.

The role of the Chairman is separate from that of the Chief Executive Officer, and difference persons hold the separate offices. Chief Executive Officer heads the management and focuses on the day-to-day operations of the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed with management, the Group's consolidated financial statements for the year ended 31 March 2012, the accounting principles and practices adopted and discussed auditing, internal controls, and financial reporting matters.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding directors' securities transactions in 2004. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the year ended 31 March 2012. The Model Code also applies to other specified senior management of the Group.

On behalf of the Board
Lee Wan Keung, Patrick
Chairman

Hong Kong, 12 June 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, three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Peter A Davies and Mr Chau Shing Yim David.