



Lee & Man Paper Manufacturing Limited

理文造紙有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2004

FINANCIAL HIGHLIGHTS

- Turnover increased by 65.4% to HK\$1,701 million
- Profit attributable to shareholders increased by 33.7% to HK\$285 million
- Earnings per share increased by 7.5% to HK40.71 cents

ANNUAL RESULTS

The board of directors 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 2004, as follows:

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	2	1,701,055	1,028,406
Cost of sales		(1,322,703)	(755,587)
Gross profit		378,352	272,819
Other operating income		15,220	9,983
Distribution costs		(23,728)	(12,983)
Administrative expenses		(64,708)	(39,510)
Profit from operations	3	305,136	230,309
Interest on bank borrowings wholly repayable within five years		(15,008)	(15,233)
Profit before taxation		290,128	215,076
Taxation	4	(5,250)	(2,000)
Profit for the year		284,878	213,076
Dividend	5	96,078	30,000
Earnings per share	6		
— Basic		40.71 cents	37.88 cents
— Diluted		40.50 cents	N/A

Notes:

1. Group reorganisation and basis of preparation of financial statements

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

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

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

2. Business and geographical segments

Business segments

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

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

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

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

3. Profit from operations

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

and after crediting:

Interest income	412	432
-----------------	-----	-----

4. Taxation

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

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

The subsidiary in Malaysia carries on offshore trading activities in 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 Macau company incorporated under that Law (called "58/99/M Company") is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company. The subsidiaries in Macau are qualified as 58/99/M Companies.

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

5. Dividend

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

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

A final dividend of HK\$0.10 per share for the year ended 31 March 2004 has been proposed by the board of directors of the Company to shareholders whose name appear on the register of members on 16 August 2004 and is subject to approval by the shareholders in the forthcoming annual general meeting. It is expected the final dividend will be paid around 24 August 2004.

6. Earnings per share

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

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 August 2004 to 16 August 2004, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on 10 August 2004.

BUSINESS REVIEW

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

OUTLOOK

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 31 March 2003 was HK\$1,903 million (31 March 2002: HK\$838 million (31 March 2001: HK\$631 million). The current ratio was 1.51 as at 31 March 2004 as compared to 0.73 at 31 March 2003.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 March 2004, the Group had outstanding bank borrowings of HK\$888 million (31 March, 2003: outstanding bank borrowings of HK\$441 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 2.45 as at 31 March 2003 to 0.47 as at 31 March 2004 as a result of the net proceeds raised from the Global Offering. The position was further enhanced as a result of the completion of the Placement and Subscription in April 2004.

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

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 March 2004. During the year ended 31 March 2004, the Group did not employ any financial instrument for hedging purposes.

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

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

- as to HK\$340 million for capital expenditure in relation to the first phase of the Changshu Project;
- as to HK\$60 million for working capital in relation to the first phase of the Changshu Project;
- as to HK\$200 million for the repayment of debts; and
- the balance as general working capital of the Group.

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

EMPLOYEES

As at 31 March 2004, the Group had a workforce of more than 2,000 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company.

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

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

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

The company has executed corporate guarantees given to the banks in respect of banking facilities extended to subsidiaries amounted to HK\$1,387 million.

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

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The annual report for the year ended 31 March 2004 containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (before the amendments made on 31 March 2004) will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Lee Wan Keung, Patrick
Chairman

Hong Kong, 6 July 2004

As at the date of this announcement, the Board comprises Mr. Lee Wan Keung, Patrick (Chairman), Mr. Lee Man Chun, Raymond and Mr. Tan Siak Him, Alexander as executive directors and Mr. Wong Kai Tung, Tony and Mr. Heng Kwoo Seng as independent non-executive directors.

* for identification purposes only