



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

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2005

FINANCIAL HIGHLIGHTS

—	Turnover increased by 63% to HK\$2,771 million
—	Profit attributable to shareholders increased by 47% to HK\$418 million
—	Earnings per share increased by 7% to HK43.54 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 2005, as follows:

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover		2,771,423	1,701,055
Cost of sales		(2,197,992)	(1,322,703)
Gross Profit		573,431	378,352
Other operating income		27,199	15,220
Distribution costs		(54,547)	(23,728)
Administrative expenses		(111,235)	(64,708)
Profit from operations		434,848	305,136
Interest on bank borrowings wholly repayable within five years	3	(11,412)	(15,008)
Profit before taxation		423,436	290,128
Taxation	4	(5,693)	(5,250)
Profit for the year		417,743	284,878
Dividend	5	96,155	—
Earnings per share			
— Basic	6	43.54 cents	40.71 cents
— Diluted		43.36 cents	40.50 cents

Notes:

1. Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, except for HKFRS3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has considered these new HKFRSs but does not expect that the issuance of these HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
People's Republic of China other than Hong Kong (the "PRC")	1,351,053	712,776	223,159	127,685
Export sales delivered in the PRC (Note)	1,364,422	988,279	225,366	177,039
Others	55,948	—	(14,345)	—
	2,771,423	1,701,055	434,180	304,724
Interest Income			668	412
Profit from operations			434,848	305,136
Interest on bank borrowings wholly repayable within five years			(11,412)	(15,008)
Profit before taxation			423,436	290,128
Taxation			(5,693)	(5,250)
Profit for the year			417,743	284,878

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

3. Profit from operations

	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	3,540	2,899
Other staff costs	100,677	44,005
Retirement benefits scheme contributions	2,585	1,100
Total staff costs	106,802	48,004
Amortization of loan arrangement fees (included in administrative expenses)	1,668	278
Auditor's remuneration	1,061	665
Depreciation and amortization	83,641	54,972
Loss on disposal of property, plant and equipment	6,816	37
Operating lease rentals in respect of land and buildings	4,141	974
and after crediting:		
Interest income	668	412

4. Taxation

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
PRC Foreign Enterprise Income Tax	14,553	5,250
Deferred taxation	(8,860)	—
	5,693	5,250

The Group's profit is subject to taxation from the place of its operations where its profit is generated. Taxation is calculated at the rates prevailing in the relevant jurisdictions as set out below.

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. During the year, the PRC Foreign Enterprise Income Tax rate for a subsidiary situated in Dongguan, the PRC was agreed by the PRC tax authority to reduce from 24% to 15%.

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.

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

5. Dividend

	2005 HK\$'000	2004 HK\$'000
2004 final dividend paid of HK\$0.10 per share (2003: Nil)	96,155	—

A final dividend of HK\$0.18 (2004: HK\$0.10) per share has been proposed by the board of directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. Earnings per share

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

	2005 HK\$'000	2004 HK\$'000
Earnings:		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	417,743	284,878
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	959,554,581	699,728,535
Effect of dilutive potential ordinary shares in respect of over-allotment option and share options	3,831,667	3,616,014
Weighted average number of ordinary shares for the purpose of diluted earnings per share	963,386,248	703,344,549

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9 August 2005 to 12 August 2005, 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 pm on 8 August 2005.

BUSINESS REVIEW AND OUTLOOK

For the financial year of 2004/2005, the group achieved a turnover of HK\$2,771 million and has recorded a net profit of HK\$418 million. This represents an increase in turnover of 63% and an increase in net profit of 47% over the same period last year. The major reason for the increases is capacity growth. PM5, our fifth production line with an annual capacity of 250,000MT, started operation early 2004. It is now running at full capacity and making contributions to the Group. PM6, our sixth production line with an annual capacity of 300,000MT, and just began operation in September 2004. Although PM6 is not running at the expected efficiencies, after further tuning for a period of time, it is expected to make further contributions to the Group in years to come.

During the year the management was able to take a significant step to implement the Group's business strategy by vertically integrating its operation. In February 2005, the Group acquired a pulp mill with an annual capacity of 200,000MT which is located at Samoa, California, United States. Only half of its production volume is adequate to fulfill our existing demand of pulp while the remaining will be placed on the market for sale and in return bring us profit. Strategically, the management believes the acquisition in North America is a very important step in the Group's business development. This would reduce our dependence on the outside pulp suppliers and at the same time generating extra income, profit and lowering our existing paper production costs.

Looking ahead, the Group has begun construction of its third paper production industrial park located at Dongguan Hongmei, which will allow it to capture the continuously growing demand for quality containerboard in the Pearl River Delta region. PM7, our seventh production machine and our first production line at Dongguan Hongmei, is expected to begin operation in January 2006. It will have an annual production capacity of 400,000MT of linerboard. Upon completion, the Group's total containerboard and pulp production capacity will reach 1.6 million metric tons and 0.2 million metric tons respectively. The Group anticipates a further improvement in its performance.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Turnover and net profit attributable to shareholders for the year ended 31 March 2005 was HK\$2,771 million and HK\$418 million, representing an increase of 63% and 47%, as compared to HK\$1,701 million and HK\$285 million, respectively, for last year. The earnings per share for the year was HK43.54 cents when compared with HK40.71 cents for 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 full year commercial operation of the paper machine V which started in January 2004 and the commenced commercial operation of the paper machine VI in September 2004.

Distribution Costs and Administrative Expenses

The Group's distribution costs and administrative expenses increased by approximately 130% and 72% from HK\$23.7 million and HK\$64.7 million for the year ended 31 March 2004 to HK\$54.5 million and HK\$111.2 million for the year ended 31 March 2005 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during the year.

Interest Expenses

The Group's interest expenses was HK\$11.4 million for the year ended 31 March 2005 as compared to HK\$15.0 million for the year ended 31 March 2004. The decrease was mainly due to the decrease in average amount of outstanding bank loans during the year.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products were 113 days and 7 days, respectively, for the year ended 31 March 2004 as compared to 85 days and 12 days, respectively, for the year ended 31 March 2005. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 66 days for the year ended 31 March 2005 as compared to 62 days for the year ended 31 March 2004. This is in line with the credit terms of around 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days were 34 days for the year ended 31 March 2004 as compared to 18 days for the year ended 31 March 2005 as the Group settle much of its creditor balances with surplus cash.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 31 March 2005 was HK\$3,041 million (31 March 2004: HK\$1,903 million). As at 31 March 2005, the Group had current assets of HK\$1,372 million (31 March 2004: HK\$1,270 million) and current liabilities of HK\$921 million (31 March 2004: HK\$838 million). The current ratio was 1.49 as at 31 March 2005 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 31 March 2005, the Group had outstanding bank borrowings of HK\$769 million (31 March 2004: 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 0.23 as at 31 March 2005 as enhanced after 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 2005. During the year ended 31 March 2005, the Group did not employ any financial instrument for hedging purposes.

Use of Proceeds from the Placement and Subscription

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 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 2005, the Group had a workforce of more than 2,400 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

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 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

PUBLICATION OF RESULTS OF THE STOCK EXCHANGE

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, 28 June 2005

* for identification purposes only