



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 2007**

FINANCIAL HIGHLIGHTS

- Turnover increased by 61% to HK\$3,894 million
- Profit attributable to shareholders increased by 75% to HK\$718 million
- Earnings per share increased by 50% to HK63.52 cents

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 2007 together with the comparative figures as follows:

Condensed Consolidated Income Statement

For the six months ended 30 September 2007

		2007	2006
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	3,894,469	2,422,625
Cost of sales		<u>(2,900,799)</u>	<u>(1,819,260)</u>
Gross profit		993,670	603,365
Other income		73,979	36,293
Selling and distribution costs		(104,806)	(75,674)
Administrative expenses		(168,502)	(85,831)
Finance costs	3	<u>(33,439)</u>	<u>(55,029)</u>
Profit before taxation		760,902	423,124
Income tax expense	4	<u>(43,202)</u>	<u>(12,201)</u>
Profit for the period	5	<u>717,700</u>	<u>410,923</u>

		2007	2006
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Attributable to:			
Equity holders of the Company		718,082	410,700
Minority interests		<u>(382)</u>	<u>223</u>
		<u>717,700</u>	<u>410,923</u>
Dividends:			
— Final dividend paid	6	<u>227,316</u>	<u>233,238</u>
— Interim dividend proposed		<u>181,917</u>	<u>155,700</u>
Earnings per share			
— Basic	7	<u>63.52 cents</u>	<u>42.27 cents</u>
— Diluted		<u>63.23 cents</u>	<u>41.84 cents</u>

Condensed Consolidated Balance Sheet

At 30 September 2007

		30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	7,558,892	5,524,620
Prepaid lease payments — non-current portion		267,642	316,831
Deposits paid for acquisition of property, plant and equipment and land use rights		898,533	931,536
Interests in associates	9	34,157	—
Deferred tax assets		29,243	31,707
Retirement benefit assets		682	682
		<u>8,789,149</u>	<u>6,805,376</u>
CURRENT ASSETS			
Inventories	10	1,653,581	1,379,159
Prepaid lease payments — current portion		3,396	14,982
Trade receivables	11	1,254,062	819,383
Bills receivable	11	308,863	261,239
Deposits, prepayments and other receivables		365,582	293,070
Amounts due from related companies		190,500	12,743
Derivative financial instruments		49,381	42,310
Restricted bank deposits		1,200	1,953
Bank balances and cash		263,322	214,985
		<u>4,089,887</u>	<u>3,039,824</u>

		30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payable	12	555,979	510,454
Accruals and other payables		619,344	380,029
Taxation payable		10,526	20,718
Bank borrowings — due within one year		653,456	824,762
Derivative financial instruments		<u>24,887</u>	<u>12,104</u>
		<u>1,864,192</u>	<u>1,748,067</u>
NET CURRENT ASSETS			
		<u>2,225,695</u>	<u>1,291,757</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>11,014,844</u>	<u>8,097,133</u>
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year		3,486,980	1,255,600
Deferred tax liabilities		68,902	46,932
Convertible bonds		—	205,364
Retirement benefit liabilities		<u>22,046</u>	<u>18,536</u>
		<u>3,577,928</u>	<u>1,526,432</u>
		<u>7,436,916</u>	<u>6,570,701</u>
CAPITAL AND RESERVES			
Share capital	13	113,698	111,948
Reserves		<u>7,287,023</u>	<u>6,458,846</u>
Equity attributable to equity holders of the Company		7,400,721	6,570,794
Minority interests		<u>36,195</u>	<u>(93)</u>
Total equity		<u>7,436,916</u>	<u>6,570,701</u>

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. SEGMENTS INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating businesses - manufacture and sales of paper, and manufacture and sales of pulp. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2007

Consolidated income statement

	Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover — External sales	3,606,017	288,452	—	3,894,469
Inter-segment sales	<u>—</u>	<u>194,482</u>	<u>(194,482)</u>	<u>—</u>
	<u>3,606,017</u>	<u>482,934</u>	<u>(194,482)</u>	<u>3,894,469</u>
SEGMENT RESULTS	<u>754,546</u>	<u>43,565</u>	<u>—</u>	798,111
Interest income				2,970
Net loss arising from change in fair value of derivative financial instruments				(5,712)
Unallocated corporate expenses				(1,028)
Finance costs				<u>(33,439)</u>
Profit before taxation				760,902
Income tax expense				<u>(43,202)</u>
Profit for the period				<u>717,700</u>

2006

Consolidated income statement

	Paper <i>HK\$'000</i>	Pulp <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover — External sales	2,194,988	227,637	—	2,422,625
Inter-segment sales	<u>—</u>	<u>150,021</u>	<u>(150,021)</u>	<u>—</u>
	<u>2,194,988</u>	<u>377,658</u>	<u>(150,021)</u>	<u>2,422,625</u>
SEGMENT RESULTS	<u>446,896</u>	<u>29,780</u>	<u>—</u>	476,676
Interest income				1,477
Finance costs				<u>(55,029)</u>
Profit before taxation				423,124
Income tax expense				<u>(12,201)</u>
Profit for the period				<u>410,923</u>

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	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
People's Republic of China other than Hong Kong (the "PRC")	2,043,208	1,304,543
Export sales delivered in the PRC (<i>Note</i>)	1,066,364	795,364
Asia other than the PRC	453,465	154,489
Europe	217,318	45,230
United States of America	42,049	73,294
Others	<u>72,065</u>	<u>49,705</u>
	<u>3,894,469</u>	<u>2,422,625</u>

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

3. FINANCE COSTS

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	78,730	33,267
Interest on convertible bonds	<u>2,157</u>	<u>31,249</u>
Total borrowing costs	80,887	64,516
Less: Amounts capitalized in construction in progress	<u>(47,448)</u>	<u>(9,487)</u>
	<u><u>33,439</u></u>	<u><u>55,029</u></u>

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
PRC Foreign Enterprise Income Tax	18,768	13,475
Deferred taxation in respect of:		
— recognition of income	21,970	5,067
— tax losses	<u>2,464</u>	<u>(6,341)</u>
	<u><u>43,202</u></u>	<u><u>12,201</u></u>

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, other than Dongguan Lee & Man Paper Factory Co., Limited 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 ("Tax Holiday").

The subsidiary in Malaysia carries on offshore trading activities in Labaun, with other group companies which are non-residents of Malaysia. As such, it is qualified as an offshore trading company in Labaun and is charged at a fixed annual rate of Malaysian RM20,000.

A Macau company incorporated under Decree-Law no. 58/99/M ("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.

At 30 September 2007, the Group had deferred tax assets resulted from tax losses carried forward of a subsidiary in the United States of America.

5. PROFIT FOR THE PERIOD

Six months ended 30 September

2007 2006

HK\$'000 HK\$'000

Profit for the period has been arrived at after charging:

Directors' emoluments	3,636	2,785
Other staff costs, excluding those of directors	175,141	118,687
Contributions to retirement benefits schemes, excluding those of directors	<u>5,036</u>	<u>1,913</u>

Total staff costs 183,813 123,385

Amortisation of prepaid lease payments	2,322	1,027
Depreciation of property, plant and equipment	114,024	58,275
Loss arising from change in fair value of derivative financial instruments	12,786	1,363
Loss on disposal of property, plant and equipment	—	224
Operating lease rentals in respect of land and buildings	1,512	2,897

and after crediting:

Gain arising from change in fair value of derivative financial instruments	7,074	11,928
Interest income	2,970	1,477
Net foreign exchange gain	<u>25,516</u>	<u>15,275</u>

6. DIVIDENDS

A final dividend for the year ended 31 March 2007 of HK20 cents (for the year ended 31 March 2006: HK24 cents) per share was paid to shareholders during the current period, and was reflected in the condensed consolidated statement of changes in equity.

The Directors have determined that an interim dividend of HK16 cents per share (2006: HK16 cents) should be paid to the shareholders of the Company whose names appear in the Register of Members on 11 December 2007.

7. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	718,082	410,700
Effect of dilutive potential ordinary shares:		
— Interest on convertible bonds	2,157	31,249
— Loss on change in fair value of derivatives embedded in the convertible bonds	(3)	—
Earnings for the purpose of diluted earnings per share	<u>720,236</u>	<u>441,949</u>
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,130,512,688	971,502,230
Effect of dilutive potential ordinary shares:		
— Share options	2,489,574	1,623,236
— Convertible bonds	<u>6,074,829</u>	<u>83,056,478</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,139,077,091</u>	<u>1,056,181,944</u>

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$2,010 million (six months ended 30 September 2006: HK\$635 million) on property, plant and equipment to expand its operations.

9. INTERESTS IN ASSOCIATES

	30 September	31 March
	2007	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	(2,038)	—
Due from associates	<u>36,195</u>	<u>—</u>
	<u>34,157</u>	<u>—</u>

The balances with associates are unsecured, interest-free and repayable on demand.

Particulars of the associates as at 30 September 2007 are as follows:

Name of associate	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion ownership interest hold by the Company		Principal activities
			Directly	Indirectly	
Fortune Sight Group Limited	British Virgin Islands	Ordinary shares — US\$1,000	19%	—	Investment holding
Guangxi Lee & Man Forestry Technology Limited	PRC	Registered capital — HK\$168,000,000	—	19%	Producing raw materials for manufacturing paper

10. INVENTORIES

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Raw materials	1,481,448	1,247,715
Finished goods	<u>172,133</u>	<u>131,444</u>
	<u>1,653,581</u>	<u>1,379,159</u>

11. TRADE RECEIVABLES AND BILLS RECEIVABLE

The Group generally allows an average credit period range from 45 to 60 days.

An aging analysis of the trade receivables and bills receivable is as follows:

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Trade receivables	1,254,062	819,383
Bills receivable	<u>308,863</u>	<u>261,239</u>
	<u>1,562,925</u>	<u>1,080,622</u>
Aged:		
Less than 30 days	979,008	769,135
31 – 60 days	474,442	217,302
61 – 90 days	88,438	72,979
Over 90 days	<u>21,037</u>	<u>21,206</u>
	<u>1,562,925</u>	<u>1,080,622</u>

12. TRADE AND BILLS PAYABLE

An aging analysis of the trade and bills payable is as follows:

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Aged:		
Less than 30 days	414,113	465,392
31 – 60 days	98,617	28,592
61 – 90 days	17,436	8,849
Over 90 days	25,813	7,621
	<u>555,979</u>	<u>510,454</u>

13 REVIEW OF INTERIM ACCOUNTS

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

BUSINESS REVIEW AND OUTLOOK

For the first half of fiscal year of 2007/2008, approximately 1.18 million tons of containerboard and 58,000 tons of pulp were sold. The Group achieved a turnover of HK\$3,894 million and has recorded a net profit of HK\$718 million. This represents an increase in turnover of 61% and an increase in net profit of 75% over the same period last year. During this period, the Group started three production lines, PM9, PM10 and PM11. With the increase in capacity, the Group's total containerboard capacity increased from 2.08 million tons to 3.11 million tons.

The Group is fully confident of the market. The Group will install five more world-class paper production lines and two bleached hardwood kraft pulp (BHKP) production lines within the next 18 months. With this expansion, the Group's annual pulp and paper capacity will reach 5,400,000 tons (500,000 tons of pulp and 4,900,000 tons of containerboard), making the Group one of the largest pulp and paper producers in the world. Just as important, we are extending our geographic coverage with two of our paper production lines (PM13 and PM15) and two pulp mills (BHKP1 and BHKP2), which are scheduled to start at our new production sites at Chongqing in 2008 and at Vietnam in 2009, and will make contributions to the Group's profit upon start-ups.

Our challenges are beyond pure financial gains. With increasing social awareness in environmental protection, we are investing in the world's most advanced technology to reduce water and energy consumption and to reduce the quantity of effluents produced. With these investments, we hope to lead the industry to a greener and healthier future, while becoming one of the largest and most important pulp and paper producers in the world.

Going forward, we will continue to expand our containerboard capacity, both inside and outside China. We will also invest into pulp and to further integrate our business and to strengthen our position as a leading player in pulp & paper industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Turnover and net profit attributable to equity holder of the parent for the six months ended 30 September 2007 was HK\$3,894 million and HK\$718 million respectively, representing an increase of 61% and 75%, as compared to HK\$2,423 million and HK\$411 million, for the corresponding period last year. The earnings per share for the period was HK63.52 cents as compared to HK42.27 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 due to the full period commercial operation of PM8 and the commercial operation of PM9, PM10 and PM11 during the period.

Selling and Distribution Costs and Administrative Expenses

The Group's selling and distribution costs and administrative expenses increased by approximately 38% and 96% from HK\$75.7 million and HK\$85.8 million for the six months ended 30 September 2006 to HK\$104.8 million and HK\$168.5 million for the six months ended 30 September 2007 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period. The distribution costs and administrative expenses represented about 2.7% and 4.3% of the turnover, respectively, for the six months ended 30 September 2007, and were comparable to the year ended 31 March 2007.

Finance Costs

The Group's finance costs decreased by approximately 39% from HK\$55.0 million for the six months ended 30 September 2006 to HK\$33.4 million for the six months ended 30 September 2007. The decrease was mainly due to the fully conversion of shares by the bondholders of the Convertible Bond during the period.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group's raw materials and finished products decreased from 120 days and 13 days, respectively, for the year ended 31 March 2007 to 100 days and 11 days, respectively, for the six months ended 30 September 2007. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 59 days for the six months ended 30 September 2007 as compared to 58 days for the year ended 31 March 2007. 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 were 35 days for the six months ended 30 September 2007 as compared to 49 days for the year ended 31 March 2007 and is in line with the credit terms granted by the Group's suppliers to the Group.

Liquidity, Financial Resources and Capital Structure

The total shareholders' fund of the Group as at 30 September 2007 was HK\$7,437 million (31 March 2007: HK\$6,571 million). As at 30 September 2007, the Group had current assets of HK\$4,090 million (31 March 2007: HK\$3,040 million) and current liabilities of HK\$1,864 million (31 March 2007: HK\$1,748 million). The current ratio was 2.19 as at 30 September 2007 as compared to 1.74 at 31 March 2007.

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 2007, the Group had outstanding bank borrowings of HK\$4,140 million (31 March 2007: HK\$2,080 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) increased from 0.32 as at 31 March 2007 to 0.52 as at 30 September 2007 as a result of the capital expenditure spent on PM8, PM9, PM10 and PM11 during the period.

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 six months ended 30 September 2007.

During the six months ended 30 September 2007, the Group has used currency structured instruments, foreign currency borrowings or other means to hedge its foreign currency exposure. In this regards, the Group considered its currency risk is significantly reduced.

EMPLOYEES

As at 30 September 2007, the Group had a workforce of more than 6,500 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.

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK16 cents (2006: HK16 cents) per share for the six months ended 30 September 2007 to shareholders whose names appear on the Register of Members on 11 December 2007. It is expected that the interim dividend will be paid around 20 December 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 7 December 2007 to 11 December 2007, 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, Hong Kong for registration no later than 4:00 p.m. on 6 December 2007.

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 2007. 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 2007.

AUDIT COMMITTEE

The Audit Committee of the Company comprised of three independent non-executive directors namely, Mr Heng Kwo Seng, Mr Wong Kai Tung Tony and Ms Law Kar Shui Elizabeth.

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 2007.

REMUNERATION COMMITTEE

To comply with the Code, a remuneration committee was established on 28 September 2005 with specific written terms of reference which deal clearly with its authority and duties. The members of the remuneration committee comprises Mr Heng Kwo Seng, Mr Wong Kai Tung Tony and Ms Law Kar Shui Elizabeth. All members of the remuneration committee are independent non-executive directors.

On behalf of the Board
Lee Wan Keung Patrick
Chairman

Hong Kong, 21 November 2007

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 Li King Wai Ross, one non-executive director, namely Professor Poon Chung Kwong and three independent non-executive directors, namely Mr Heng Kwo Seng, Mr Wong Kai Tung Tony and Ms Law Kar Shui Elizabeth.

** for identification purposes*