Lee & Man Paper Manufacturing Limited

理文造紙有限公司*

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

FINANCIAL HIGHLIGHTS
— Turnover increased by 106% to HK$798.6 million
— Profit attributable to shareholders increased by 51% to HK$137.9 million
— Earnings per share increased by 49% to HK24.30 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 2003 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2003

	Notes	Six months ended 30 September 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Turnover	2	**798,631**	386,995
Cost of sales		**(610,083)**	(272,175)
Gross profit		**188,548**	114,820
Other operating income		**6,730**	3,399
Distribution costs		**(13,298)**	(4,398)
Administrative expenses		**(32,519)**	(14,919)
Profit from operations	3	**149,461**	98,902
Interest on bank borrowings wholly repayable within five years		**(8,533)**	(7,284)
Profit before taxation		**140,928**	91,618
Taxation	4	**(3,000)**	—
Profit for the year		**137,928**	91,618
Interim dividend		**—**	—
Earnings per share (HK cents)			
— Basic	5	**24.30**	16.29
— Diluted	5	**24.15**	N/A

Notes:

1. **Basis of preparation and principal accounting policies**

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the shares of the Company on The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") on 11 September 2003, the Company acquired the entire issued share capital of Able Advance International Limited ("Able Advance") through a share swap and became the holding company of the companies now comprising the Group. Details of the Group Reorganisation are set out in the Prospectus document issued by the Company dated 16 September 2003.

The Group Reorganisation is accounted for using merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", issued by the Hong Kong Society of Accountants ("HKSA"). The condensed consolidated financial statements for the six months ended 30 September 2003 and the year ended 31 March 2003 are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 (revised) "Interim Financial Reporting", under the historical cost convention, as modified for the revaluation of property, plant and equipment. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2003.

2. **Segmental Information**

Business Segments

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

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 2003 *HK$'000*	2002 *HK$'000*	Contribution to profit from operations Six months ended 30 September 2003 *HK$'000*	2002 *HK$'000*
PRC other than Hong Kong	**283,504**	100,416	**52,893**	26,145
Export sales delivered in the PRC*	**504,907**	286,367	**94,530**	72,375
Others	**10,220**	212	**1,843**	50
	798,631	386,995	**149,266**	98,570
Interest income			**195**	332
Finance costs			**(8,533)**	(7,284)
Profit before taxation			**140,928**	91,618
Taxation			**(3,000)**	—
Profit attributable to shareholders			**137,928**	91,618

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

Since the goods sold to various geographical markets were produced from the same production facilities, analysis of assets and liabilities by geographical market is not presented.

3. **Profit from operations**

	Six months ended 30 September 2003 *HK$'000*	2002 *HK$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments	**1,231**	1,098
Other staff costs	**19,992**	13,938
Retirement benefits scheme contributions	**458**	342
Total staff costs	**21,681**	15,378
Depreciation and amortisation	**24,725**	13,489
Loss on disposal of property, plant and equipment	**34**	—
Operating lease rentals in respect of land and buildings	**397**	380

4. **Taxation**

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

The subsidiaries in the PRC is 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 provision represents the PRC Foreign Enterprise Income Tax charge after taking into account the relevant tax incentives and the possible transfer pricing adjustments on transactions relating to purchases and sales with related parties.

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

5. **Earnings per share**

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

	For the six months ended 30 September 2003 *HK$'000*	2002 *HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**137,928**	91,618
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic earnings per share	**567,622,950**	562,500,000
Potential dilutive effect arising from over-allotment option and share options	**3,509,968**	N/A
Weighted average number of shares for the purposes of diluted earnings per share	**571,132,918**	N/A

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2003.

BUSINESS REVIEW

In the first half of 2003, the Company overcame the impact of SARS and produced an significant increase in sales turnover and profits over the same period last year. In fact, it was the impact of SARS, which provided a wake-up call for the Company to become more competitive when the market conditions deteriorate. As a result, the Company enhanced its competitiveness by broadening its product range, emphasizing on internal staff training as well as increasing the number of various departmental staff, in order to expand the customer base and increase our market share. With its growth in production, sales, and profits, the Company has maintained its position as one of the largest containerboard producers in China.

The Company's four production lines at its Dongguan mill ran at close to full capacities in the first six months. With increased production, sales and net profit grew by 106% and 51% respectively over the same period last year.

For the six months ended 30 September 2003, the Group's profit attributable to shareholders amounted to HK$137.9 million, representing an increase of approximately 51% as compared to HK$91.6 million in the corresponding period last year. Turnover for the Group increased from HK$387.0 million to HK$798.6 million, representing an increase of 106% over the corresponding period last year. The earnings per share for the period was HK24.30 cents when compared with HK16.29 cents for the corresponding period last year.

OUTLOOK

At present, China is being praised as the "World Factory". With its manufacturing sector getting stronger and the demand of paper products shows an upward trend, the Management of the Company believes that the market conditions for containerboard will continue to be good. The first phase of development at the Company's Changshu mill was completed and our fifth production line (PM5), which has a capacity of 200,000 metric tons per year will start production in mid December 2003. The second phase of development, on the other hand, will bring up our sixth production line (PM6) in operation, which has a capacity of 350,000 metric tons per year, is expected to commence production in the third quarter of 2004. These two additional production lines will bring the Company's total annual capacity to approximately 1,200,000 metric tons. In view of the above, the Directors believe that these two production lines should nevertheless contribute to the Company's sales turnover and profit in the near future.

With favorable market conditions, enhanced competitiveness in its production lines, an increased number of customers, and an introduction of a new production line, the management and staff feels confident to achieve better results.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30 September 2003 was HK$798.6 million and HK$137.9 million, representing an increase of 106% and 51%, as compared to HK$387.0 million and HK$91.6 million, respectively, for the corresponding period last year. The earnings per share for the period was HK24.30 cents when compared with HK16.29 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 mainly due to the result of the commenced commercial operation of the paper machine IV in October 2002.

Distribution costs and administrative expenses

The Group's distribution costs and administrative expenses increased by approximately 202% and 116% from HK$4.4 million and HK$14.9 million for the six months ended 30 September 2002 to HK$13.3 million and HK$32.5 million for the six months ended 30 September 2003 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period. As part of our marketing and growth strategy, sales to customers in the Yantze River Delta region by the Dongguan mill was increased during the period and, accordingly, additional transportation cost has to be incurred.

Interest expenses

The Group's interest expenses increased by approximately 17% from HK$7.3 million for the six months ended 30 September 2002 to HK$8.5 million for the six months ended 30 September 2003. The increase in interest expenses was mainly due to the increase in the average amount of outstanding bank loans during the period.

Inventories, debtors' and creditors' turnover

The inventory turnover of the Group's raw materials and finished products decreased from 104 days and 27 days, respectively, for the year ended 31 March 2003 to 82 days and 4 days, respectively, for the six months ended 30 September 2003. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 45 days for the six months ended 30 September 2003 as compared to 55 days for the year ended 31 March 2003. 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 decreased from 31 days for the year ended 31 March 2003 to 16 days for the six months ended 30 September 2003 as the Group settled part of its creditor balance with surplus cash near the period end.

Liquidity, financial resources and capital structure

The total shareholders' fund of the Group as at 30 September 2003 was HK$1,382 million (31 March 2003: HK$495 million). As at 30 September 2003, the Group had current assets of HK$832 million (31 March 2003: HK$458 million) and current liabilities of HK$1,200 million (31 March 2003: HK$631 million). The current ratio was 0.69 as at 30 September 2003 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. During the six months ended 30 September 2003, all shareholders' loan was settled by way of bank borrowings. As at 30 September 2003, the Group had outstanding bank borrowings of HK$1,008 million (31 March, 2003: outstanding bank borrowings of HK$441 million and shareholders' loan of HK$795 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 0.48 as at 30 September 2003 as a result of the net proceeds raised from the Global Offering.

Subsequent to 30 September 2003, the Company raised an additional fund of HK$368.7 million as a result of the exercise of over-allotment option and share options.

The Group 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 2003. During the six months ended 30 September 2003, the Group do not employ any financial instrument for hedging purposes.

Use of proceeds from the Global Offering

The net proceeds from the Global Offering, after deduction of related expenses, of HK$749 million will be 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.

Employees

As at 30 September 2003, the Group had a workforce of more than 1,800 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 experience 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited interim financial statements for the six months ended 30 September 2003.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part, in compliance with the Code of Best Practice as set out in the Rules Governing the listing of Securities by the Stock Exchange at any time during the six months ended 30 September 2003.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

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
Chairman

Hong Kong, 1 December 2003

* *for identification purpose only*