



# 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 RESULT ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### FINANCIAL HIGHLIGHTS

- Turnover increased by 30% to HK\$2,423 million
- Profit attributable to shareholders increased by 33% to HK\$411 million
- Earnings per share increased by 32% to HK42.27 cents

### INTERIM RESULTS

The board of directors of Lee & Man Paper Manufacturing Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2006 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
	<i>Notes</i>		
Turnover	2	2,422,625	1,869,320
Cost of sales		(1,819,260)	(1,489,600)
Gross profit		603,365	379,720
Other income		36,293	43,136
Distribution costs		(75,674)	(29,153)
Administrative expenses		(85,831)	(60,877)
Finance costs	3	(55,029)	(19,321)
Profit before taxation		423,124	313,505
Taxation	4	(12,201)	(4,155)
Profit for the period	5	410,923	309,350
Attributable to:			
Equity holders of the Company		410,700	309,350
Minority interests		223	–
Profit for the period		410,923	309,350
Dividends:	6		
– Final dividend paid		233,238	173,409
– Interim dividend proposed		155,700	–
Earnings per share	7		
– Basic		42.27 cents	32.11 cents
– Diluted		41.84 cents	31.99 cents

### CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

		30 September 2006 (unaudited) HK\$'000	31 March 2006 (audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	4,113,573	3,575,000
Prepaid lease payments – non-current portion		212,175	176,441
Deposits paid for acquisition of property, plant and equipment and land use right		333,537	155,649
Deferred tax assets		26,297	19,956
Retirement benefit assets		607	607
		4,686,189	3,927,653
<b>CURRENT ASSETS</b>			
Inventories	9	821,860	774,259
Prepaid lease payments – current portion		4,548	3,850
Trade receivable	10	695,503	676,364
Bills receivable	10	219,543	130,753
Deposits, prepayments and other receivables		271,696	125,597
Amount due from a related company		–	22,938
Derivative financial instruments		11,862	1,131
Restricted bank deposits		–	1,154
Bank balances and cash		198,148	110,317
		2,223,160	1,846,363
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	11	265,556	169,689
Accruals and other payable		306,945	181,575
Amount due to a related company		3,805	–
Taxation payable		9,576	12,358
Derivative financial instruments		2,194	2,028
Bank overdraft		847	504
Bank borrowings – due within one year		416,178	782,107
		1,005,101	1,148,261
<b>NET CURRENT ASSETS</b>		1,218,059	698,102
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,904,248	4,625,755
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year		1,114,000	100,000
Deferred tax liabilities		35,333	30,266
Convertible bonds		935,069	901,006
Retirement benefit liabilities		17,439	17,439
		2,101,841	1,048,711
		3,802,407	3,577,044
<b>CAPITAL AND RESERVES</b>			
Share capital		97,312	96,761
Reserves		3,681,098	3,480,283
Equity attributable to equity holders of the Company		3,778,410	3,577,044
Minority Interests		23,997	–
		3,802,407	3,577,044

Note:

### 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 preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKAS (collectively referred to as “New HKFRSs”) which have become effective for accounting periods commencing on or after 1 January 2006. The applicable New HKFRSs adopted in this interim financial statements are set out below:

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease

The adoption of the above new HKFRSs did not have a material effect on how the results of operations and financial position of the Group are prepared and presented.

No early adoption of the following New HKFRSs that have been issued but are not yet effective. The adoption of such New HKFRSs will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of embedded derivatives

### 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:

#### 2006

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

#### 2005

	Paper HK\$'000	Pulp HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Consolidated income statement				
Turnover – External sales	1,651,333	217,987	–	1,869,320
Inter-segment sales	–	124,432	(124,432)	–
	1,651,333	342,419	(124,432)	1,869,320
SEGMENT RESULTS	315,397	17,018	–	332,415
Interest income				411
Finance costs				(19,321)
Profit before taxation				313,505
Taxation				(4,155)
Profit for the period				309,350

#### Geographical segments

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

	Six months ended 30 September Sales revenue by geographical market		Contribution to profit before taxation	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
People's Republic of China other than Hong Kong (the “PRC”)	1,304,543	1,083,009	259,474	195,068
Export sales delivered in the PRC (Note)	795,364	672,657	161,595	128,474
Other Asian countries	154,489	113,654	21,733	8,873
America	73,294	–	14,887	–
Others	94,935	–	18,987	–
	2,422,625	1,869,320	476,676	332,415
Interest income			1,477	411
Finance costs			(55,029)	(19,321)
Profit before taxation			423,124	313,505
Taxation			(12,201)	(4,155)
Profit for the period			410,923	309,350

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

### 3. FINANCE COSTS

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	33,267	19,321
Interest on convertible bonds	31,249	–
	64,516	19,321
Less:		
Portion capitalized	(9,487)	–
	55,029	19,321

\* for identification purposes

4. TAXATION

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
The charge comprises: PRC Foreign Enterprise Income Tax	13,475	5,328
Deferred taxation in respect of: – recognition of income – tax losses	5,067 (6,341)	– (1,173)
	12,201	4,155

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 their first profit-making year, followed by a 50% relief for the three years thereafter.

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. The deferred taxation credit represents deferred tax asset resulted from tax losses of a subsidiary in the United States of America recognized during the period.

5. PROFIT FOR THE PERIOD

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Profit for the period has been arrived at after charging: Directors' emoluments	2,785	1,914
Other staff costs	118,687	96,806
Retirement benefits scheme contributions	1,913	1,174
Total staff costs	123,385	99,894
Amortisation of prepaid lease payments	1,027	978
Depreciation of property, plant and equipment	58,275	46,930
Loss arising from change in fair value of derivative financial instrument	1,363	–
Loss on disposal of property, plant and equipment	224	–
Operating lease rentals in respect of land and buildings	2,897	6,345
and after crediting: Gain arising from change in fair value of derivative financial instrument	11,928	–
Interest income	1,477	411
Net foreign exchange gain	15,275	33,092

6. DIVIDENDS

A final dividend for the year ended 31 March 2006 of HK24 cents (for the year ended 31 March 2005: HK18 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 (2005: nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 11 December 2006.

7. EARNINGS PER SHARE

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

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Earnings for the purpose of basic earnings per share	410,700	309,350
Interest on Convertible Bonds	31,249	–
Earnings for the purpose of diluted earnings per share	441,949	309,350
	Number of shares	Number of shares
Weighted average number of share for the purpose of basic earnings per share	971,502,230	963,384,000
Potential dilutive effect arising from – share options – convertible bonds	1,623,236 83,056,478	3,668,607 –
Weighted average number of share for the purpose of diluted earnings per share	1,056,181,944	967,052,607

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$635 million (six months ended 30 September 2005: HK\$275 million) on property, plant and equipment to expand its operations.

9. INVENTORIES

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
At cost: Raw materials	738,948	663,605
Finished goods	82,912	110,654
	821,860	774,259

10. TRADE AND BILLS RECEIVABLE

The credit terms granted by the Group to its customers normally range from 45 to 60 days.

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

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Aged: Less than 30 days	411,136	467,520
31 – 60 days	299,320	187,184
61 – 90 days	98,820	104,210
Over 90 days	105,770	48,203
	915,046	807,117

11. TRADE AND BILLS PAYABLE

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

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Aged: Less than 30 days	202,178	155,877
31 – 60 days	39,495	7,991
61 – 90 days	7,433	5,074
Over 90 days	16,450	747
	265,556	169,689

BUSINESS REVIEW AND OUTLOOK

For the first half of fiscal year of 2006/2007, the Group achieved a turnover of HK\$2,423 million and has recorded a net profit of HK\$411 million. This represents an increase in turnover of 30% and an increase in net profit of 33% over same period last year. All of our pulp and paper production lines are now currently running at maximum capacity.

During the period, we saw a strong demand for containerboards worldwide. Our superior technological know-how and our experienced management team allow us to produce excellent quality products at low cost. Thus, we believe we can be extremely competitive in both the domestic market and export market.

For the second half, we will be starting our eighth production line (PM8) at our Changshu plant. Within the next ten months, we will be starting our ninth, tenth and eleventh production lines (PM9, PM10, and PM11). With this expansion, the Group's annual paper capacity will exceed 3,100,000MT, making the Group one of the largest containerboard producers in the world.

Going forward, we will continue to expand our containerboard capacities. We will also invest into pulp making to further integrate our business and to strengthen our position as a leading player in our industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

Turnover and net profit attributable to shareholders for the six months ended 30 September 2006 was HK\$2,423 million and HK\$411 million respectively, representing an increase of 30% and 33%, as compared to HK\$1,869 million and HK\$309 million, for the corresponding period last year. The earnings per share for the period was HK42.27 cents as compared to HK32.11 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 the paper machine VII in 2006.

Distribution costs and administrative expenses

The Group's distribution costs and administrative expenses increased by approximately 160% and 41% from HK\$29.2 million and HK\$60.9 million for the six months ended 30 September 2005 to HK\$75.7 million and HK\$85.8 million for the six months ended 30 September 2006 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 3.1% and 3.5% of the turnover, respectively, for the six months ended 30 September 2006, and were comparable to the year ended 31 March 2006.

Interest expenses

The Group's interest expenses increased by approximately 185% from HK\$19.3 million for the six months ended 30 September 2005 to HK\$55.0 million for the six months ended 30 September 2006. The increase was mainly due to the increase in 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 100 days and 11 days, respectively, for the year ended 31 March 2006 to 85 days and 6 days, respectively, for the six months ended 30 September 2006. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 52 days for the six months ended 30 September 2006 as compared to 65 days for the year ended 31 March 2006. 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 30 days for the six months ended 30 September 2006 as compared to 26 days for the year ended 31 March 2006 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 2006 was HK\$3,778 million (31 March 2006: HK\$3,577 million). As at 30 September 2006, the Group had current assets of HK\$2,223 million (31 March 2006: HK\$1,846 million) and current liabilities of HK\$1,005 million (31 March 2006: HK\$1,148 million). The current ratio was 2.21 as at 30 September 2006 as compared to 1.61 at 31 March 2006.

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 30 September 2006, the Group had outstanding bank borrowings of HK\$1,530 million (31 March 2006: HK\$883 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. In addition, the Group issued HK\$1,000 million zero coupon convertible bonds due in 2011 in January 2006. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) increased from 0.47 as at 31 March 2006 to 0.60 as at 30 September 2006 as a result of the capital expenditure spent on paper machine VIII, IX, X and XI 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 2006.

During the six months ended 30 September 2006, 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 2006, the Group had a workforce of more than 3,900 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 (2005: nil) per share for the six months ended 30 September 2006 to shareholders whose names appear on the Register of Members on 11 December 2006. It is expected that the interim dividend will be paid around 20 December 2006.

Closure of register of members

The Register of Members will be closed from 7 December 2006 to 11 December 2006, 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 pm on 6 December 2006.

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 2006. 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 (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006.

Audit committee

The Audit Committee of the Company comprised of three independent non-executive directors namely, Mr Heng Kwoo 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 2006.

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 Kwoo 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 2006

As at the date of this notice, the board of directors of the Company comprises five executive directors, namely Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond, Mr Lee Man Bun, Mr Li King Wai Ross and Mr Tan Siak Him Alexander, one non-executive director, namely Professor Poon Chung Kwong and three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Heng Kwoo Seng and Ms Law Kar Shui Elizabeth.