

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

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2003

	Notes	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	1,709,958	1,436,029
Deposits paid on acquisition of property, plant and equipment		39,729	35,919
		<b>1,749,687</b>	1,471,948
<b>CURRENT ASSETS</b>			
Inventories	7	243,951	257,847
Trade and bills receivables	8	195,704	156,074
Deposits, prepayments and other receivables		50,636	18,774
Retirement benefit assets		1,195	1,195
Amount due from a fellow subsidiary		—	684
Bank balances and cash		340,909	23,261
		<b>832,395</b>	457,835
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	53,569	62,833
Accruals and other payable		133,070	115,396
Taxation payable		5,000	2,000
Land costs payable — due within one year		—	9,554
Bank borrowings — due within one year		1,008,370	440,931
		<b>1,200,009</b>	630,714
		<b>(367,614)</b>	(172,879)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,382,073</b>	1,299,069
<b>NON-CURRENT LIABILITIES</b>			
Amount due to ultimate holding company		—	795,000
Land costs payable — due after one year		—	9,553
		—	804,553
		<b>1,382,073</b>	494,516
<b>CAPITAL AND RESERVES</b>			
Share capital	10	75,000	1
Reserves		1,307,073	494,515
		<b>1,382,073</b>	494,516

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2003*

	<b>Six months ended 30 September</b>	
	<b>2003 (Unaudited) HK\$'000</b>	2002 (Unaudited) HK\$'000
Net cash generated from operating activities	<b>126,952</b>	81,353
Net cash used in investing activities	<b>(322,585)</b>	(383,408)
Net cash generated from financing activities	<b>513,281</b>	242,711
Net increase (decrease) in cash and cash equivalents	<b>317,648</b>	(59,344)
Cash and cash equivalents brought forward	<b>23,261</b>	68,922
Effect of foreign exchange rate changes	<b>—</b>	422
Cash and cash equivalents carried forward represented by bank balances and cash	<b>340,909</b>	10,000

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 September 2003

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003	1	—	18,950	475,565	494,516
Issue of shares for the Global Offering	18,750	763,125	—	—	781,875
Capitalization issue	53,250	(53,250)	—	—	—
Issue of shares on acquisition of subsidiaries	2,999	(2,999)	—	—	—
Issue expenses	—	(32,695)	—	—	(32,695)
Exchange difference arising from translation of financial statements of overseas operations	—	—	449	—	449
Profit for the period	—	—	—	137,928	137,928
Transfer to reserves	—	—	(11,181)	11,181	—
At 30 September 2003	75,000	674,181	8,218	624,674	1,382,073

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2002	—	—	2,169	292,489	294,658
Issue of shares	1	—	—	—	1
Exchange difference arising from translation of financial statements of overseas operations	—	—	6,579	—	6,579
Profit for the period	—	—	—	91,618	91,618
At 30 September 2002	1	—	8,748	384,107	392,856

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2003

### 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		Contribution to profit from operations	
	Six months ended 30 September		Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	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
	<b>798,631</b>	386,995	<b>149,266</b>	98,570
Interest income			195	332
Finance costs			(8,533)	(7,284)
Profit before taxation			<b>140,928</b>	91,618
Taxation			(3,000)	—
Profit attributable to shareholders			<b>137,928</b>	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

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

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

## 6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$300 million (six months ended 30 September 2002: HK\$383 million) on property, plant and equipment to expand its operations.

## 7. INVENTORIES

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Raw materials	<b>212,753</b>	188,386
Finished goods	<b>13,751</b>	55,135
Fuel and spare parts	<b>17,447</b>	14,326
	<b>243,951</b>	257,847

## 8. TRADE AND BILLS RECEIVABLES

The credit terms granted by the Group to its customers normally range from 45 days to 60 days. An aging analysis of the trade and bills receivables is as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Aged:		
Less than 1 month	<b>129,385</b>	107,501
1 - 2 months	<b>56,149</b>	39,573
2 - 3 months	<b>10,116</b>	7,060
Over 3 months but not exceeding 6 months	<b>54</b>	1,940
	<b>195,704</b>	156,074

## 9. TRADE AND BILLS PAYABLES

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

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Aged:		
Less than 1 month	<b>28,716</b>	44,740
1 - 2 months	<b>10,712</b>	10,776
2 - 3 months	<b>10,349</b>	5,670
Over 3 months	<b>3,792</b>	1,647
	<b>53,569</b>	62,833

## 10. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorised:		
On incorporation on 21 May, 2003	3,800,000	380
Increase in authorised share capital	1,996,200,000	199,620
At 30 September 2003	2,000,000,000	200,000
Issued and fully paid:		
Issue of share to subscriber on 21 May, 2003	1	—
Issue of new shares on acquisition of subsidiaries	29,999,999	3,000
Issue of new shares pursuant to the Capitalization Issue	532,500,000	53,250
Issue of new shares pursuant to the Global Offering	187,500,000	18,750
At 30 September 2003	750,000,000	75,000

The Company was incorporated on 21 May, 2003 with an authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each. On the same date, 1 share of HK\$0.10 was allotted and issued, for cash at par, to the subscriber.

The balance of the share capital as at 31 March, 2003 represents the aggregate amount of the share capital of subsidiaries.

As part of the corporate reorganisation which the Group has undergone in preparation for the listing of the Company on The Stock Exchange of Hong Kong Limited ("the Corporate Reorganisation"), the Company became the holding company of the Group on 11 September 2003 by effecting the following changes in share capital:

- (i) the Company's authorised share capital was increased from HK\$380,000 to HK\$200,000,000 by the creation of 1,996,200,000 new ordinary shares of HK\$0.10 each in the Company;
- (ii) the Company issued 29,999,999 new ordinary shares of HK\$0.10 each in the Company, credited as fully paid at par to Gold Best Holdings Ltd. ("Gold Best") as consideration for the acquisition of Able Advance International Limited from Gold Best.
- (iii) as part of the Corporate Reorganisation, the Company issued 532,500,000 new ordinary shares of HK\$0.10 each in the Company to the then existing shareholders by capitalising an amount of HK\$53,250,000 standing to the credit of the share premium account of the Company.

On 26 September, 2003, the Company issued 187,500,000 shares pursuant to the Public Offer and the Placing.

Following the above capital changes, the Company's issued capital amounted to HK\$75,000,000 divided into 750,000,000 shares of HK\$0.10 each.



**11. COMMITMENTS**

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>477,919</b>	271,886

In addition, the following is the unpaid registered capital of Dongguan Lee & Man Paper Factory Co., Ltd. ("Dongguan Lee & Man") and Jiangsu Lee & Man Paper Manufacturing Company Limited ("Jiangsu Lee & Man") which will be contributed by other members of the Group according to the required time schedules.

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Dongguan Lee & Man	—	78,613
Jiangsu Lee & Man	<b>362,700</b>	636,480
	<b>362,700</b>	715,093

**12. OPERATING LEASE COMMITMENTS**

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Within one year	<b>734</b>	120

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of one year with fixed rentals.

**13. PLEDGE OF ASSETS**

At the respective balance sheet date, banking facilities granted by certain banks to the Group were secured by the assets of the Group as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Property, plant and equipment	<b>27,041</b>	555,707

## 14. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with the related parties during the period as follows:

	Notes	Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
Finished goods sold	(a)	<b>40,519</b>	41,169
Waste paper purchased	(b)	<b>3,226</b>	2,728
Steam sold	(c)	<b>780</b>	780
Licence fee paid	(d)	<b>352</b>	337
Management fee paid	(e)	<b>72</b>	—

Notes:

- (a) The prices are based on the monthly quote given by the Group provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (b) The prices are based on the monthly quote given by Lee & Man Industrial Manufacturing Limited provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (c) Lee & Man Industrial Manufacturing Limited will pay to the Group a monthly fee of HK\$130,000 (which is approximately the cost of coal incurred to produce steam in the past) for the supply of steam by the Group.
- (d) The licence fee is HK\$40,000 per month for the use of certain pre-determined areas plus an amount calculated on the basis of any additional space occupied at the rate of HK\$8 per square metre per month.
- (e) The management fee of HK\$72,076.94 per month paid to Lee & Man Management Co. Ltd. is for the use of its administrative and secretarial services and the right to use its premises as registered office.

The directors have confirmed that the above transactions were conducted in the normal course of the Group's business.

## 15. EVENTS AFTER THE BALANCE SHEET DATE

The following events took place subsequent to 30 September 2003:

- CLSA Limited ("CLSA") exercised in full the Over-allotment Option on 15 October 2003 to require the Company to issue 28,124,000 additional new Shares at the offer price of HK\$4.17. Such additional Shares were returned to Gold Best pursuant to the stock borrowing arrangements between Gold Best and CLSA to cover over-allocations in the Placing ("Stock Borrowing Agreement").
- On 15 October 2003, Gold Best exercised in full the option granted to it under the Pre-IPO Share Option Scheme and, as a result, the Company issued 61,000,000 new Shares to Gold Best at the offer price of HK\$4.17.

## 16. REVIEW OF INTERIM ACCOUNTS

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