

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands on 21 May 2003. Its ultimate holding company is Gold Best Holdings Ltd. (“Gold Best”), a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 30.

Pursuant to a group reorganisation (the “Corporate Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group on 11 September 2003. Details of the Corporate Reorganisation are set out in the prospectus issued by the Company dated 16 September 2003 (the “Prospectus”). The shares of the Company were listed on the Stock Exchange on 26 September 2003.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the principle of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group during the year.

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Steam income is recognised in accordance with the agreement.

### Property, plant and equipment

Property, plant and, equipment other than construction in progress are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to the construction. It is not depreciated or amortised until completion of construction. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Leasehold land and land use rights are amortised over the period of the lease or rights respectively using the straight line method.

Depreciation and amortisation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	5%
Furniture, fixtures and equipment	20%
Leasehold improvements	5%
Motor vehicles	20%
Plant and machinery	3 $\frac{1}{3}$ % – 20%

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs comprise borrowing expenses and other incidental costs incurred in connection with the borrowing of funds, and is amortised on a straight line basis over the term of respective borrowings.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Operating leases

Rentals payable under operating leases are charged to the income statements on a straight line basis over the period of the respective leases.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the fair value of the plan assets as adjusted for unrecognised actuarial gains and losses, and as reduced by the present value of the defined benefit obligation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 3. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
People's Republic of China other than Hong Kong (the "PRC")	712,776	254,159	127,685	56,812
Export sales delivered in the PRC (Note)	988,279	773,619	177,039	172,925
Others	–	628	–	140
	<u>1,701,055</u>	<u>1,028,406</u>	<u>304,724</u>	<u>229,877</u>
Interest income			412	432
Interest on bank borrowings wholly repayable within five years			(15,008)	(15,233)
Profit before taxation			290,128	215,076
Taxation			(5,250)	(2,000)
Profit for the year			<u>284,878</u>	<u>213,076</u>

Note: 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

The following is an analysis of the carrying amount of segment assets, additions to property, plant and equipment and depreciation and amortisation, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment		Depreciation and amortisation	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC other than Hong Kong	3,060,458	1,918,840	645,524	610,480	54,748	33,832
Hong Kong	348,665	10,943	-	556	224	589
	<b>3,409,123</b>	<b>1,929,783</b>	<b>645,524</b>	<b>611,036</b>	<b>54,972</b>	<b>34,421</b>

## 4. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 5</i> )	2,899	2,399
Other staff costs	44,005	32,681
Retirement benefits scheme contributions	1,100	737
Total staff costs	<b>48,004</b>	<b>35,817</b>
Amortisation of borrowing costs (included in administrative expenses)	278	-
Auditors' remuneration	665	510
Depreciation and amortisation	54,972	34,421
Loss on disposal of property, plant and equipment	37	48
Operating lease rentals in respect of land and buildings	974	788
and after crediting:		
Interest income	412	432

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Independent non-executive	187	–
Other emoluments of executive directors:		
– salaries and other benefits	2,690	2,364
– retirement benefits scheme contributions	22	35
Total directors' emoluments	<u>2,899</u>	<u>2,399</u>

The directors' emoluments were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	3	5
HK\$1,000,001 to HK\$1,500,000	2	–

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Of the five individuals with the highest emoluments in the Group, two (2003: three) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three (2003: two) individuals were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Employees		
– salaries and other benefits	2,049	1,263
– bonus	–	44
– retirement benefits scheme contributions	36	24
	<u>2,085</u>	<u>1,331</u>

The aggregate emoluments of each of the above three (2003: two) employees were under HK\$1,000,000 for both years.



# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2004*

## 6. TAXATION

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

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. The taxation charge represents the PRC Foreign Enterprise Income Tax for the year after taking into account the relevant tax incentives.

The subsidiary in Malaysia carries on offshore trading activities in Labaun, 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 Labaun 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. The subsidiaries in Macau are qualified as 58/99/M Companies.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 6. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>290,128</b>		215,076	
Tax at the applicable tax rate of 24% (2003: 24%)	<b>69,631</b>	<b>24.0</b>	51,618	24.0
Tax effect of expenses not deductible for tax purpose	<b>16,787</b>	<b>5.8</b>	70	–
Tax effect of income not taxable for tax purpose	<b>(33,369)</b>	<b>(11.5)</b>	(38,062)	(17.6)
Tax effect of tax losses not recognised	–	–	346	–
Utilisation of tax losses previously not recognised	<b>(101)</b>	<b>(0.1)</b>	–	–
Effect of tax exemption for PRC subsidiaries	<b>(9,647)</b>	<b>(3.3)</b>	(11,938)	(5.5)
Effect of tax exemption granted to Macau and Malaysia subsidiaries	<b>(38,015)</b>	<b>(13.1)</b>	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(36)</b>	–	(34)	–
Tax expense and effective tax rate for the year	<b>5,250</b>	<b>1.8</b>	2,000	0.9

The Group and the Company had no significant unrecognised deferred taxation for the year or at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 7. DIVIDEND

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Final dividend proposed of HK\$0.10 per share	96,078	–
Interim dividend	–	30,000
	<u>96,078</u>	<u>30,000</u>

The dividend for the year ended 31 March 2003 represented dividend paid in that year by one of the Company's subsidiaries to its then shareholders prior to the Corporate Reorganisation.

A final dividend of HK\$0.10 per share for the year ended 31 March 2004 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.

## 8. EARNINGS PER SHARE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Earnings:		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	<u>284,878</u>	213,076
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	699,728,535	<u>562,500,000</u>
Effect of dilutive potential ordinary shares in respect of over-allotment option and share options	<u>3,616,014</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>703,344,549</u>	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 9. PROPERTY, PLANT AND EQUIPMENT

	Land use rights HK\$'000	Buildings HK\$'000	Construction in progress HK\$'000	Furniture fixtures & equipment HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Plant & machinery HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
COST								
At 1 April 2003	27,878	240,410	71,819	4,924	424	9,160	1,182,771	1,537,386
Additions	7,358	7,920	615,031	5,009	106	2,776	7,324	645,524
Transfers	47,768	129,048	(590,408)	-	41,556	-	372,036	-
Disposals	-	-	-	-	-	(2,500)	-	(2,500)
<b>At 31 March 2004</b>	<b>83,004</b>	<b>377,378</b>	<b>96,442</b>	<b>9,933</b>	<b>42,086</b>	<b>9,436</b>	<b>1,562,131</b>	<b>2,180,410</b>
DEPRECIATION AND AMORTISATION								
At 1 April 2003	2,879	26,362	-	2,041	82	4,160	65,833	101,357
Provided for the year	916	12,223	-	1,090	551	1,400	38,792	54,972
Eliminated on disposals	-	-	-	-	-	(1,481)	-	(1,481)
<b>At 31 March 2004</b>	<b>3,795</b>	<b>38,585</b>	<b>-</b>	<b>3,131</b>	<b>633</b>	<b>4,079</b>	<b>104,625</b>	<b>154,848</b>
NET BOOK VALUE								
<b>At 31 March 2004</b>	<b>79,209</b>	<b>338,793</b>	<b>96,442</b>	<b>6,802</b>	<b>41,453</b>	<b>5,357</b>	<b>1,457,506</b>	<b>2,025,562</b>
At 31 March 2003	24,999	214,048	71,819	2,883	342	5,000	1,116,938	1,436,029

All the Group's buildings, including construction in progress, are situated on land in the PRC which are held by the Group under medium term land use right.

## 10. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities. The related capital commitments are included in note 24.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 11. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>
	<i>HK\$'000</i>
Unlisted shares, at cost ( <i>Note</i> )	637,977
Amounts due from subsidiaries	<u>1,530,765</u>
	<u>2,168,742</u>

*Note:* The cost of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group on the date of Corporate Reorganisation.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore shown in the balance sheet as non-current.

Details of the Company's principal subsidiaries at 31 March 2004 are set out in note 30.

## 12. INVENTORIES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:		
Raw materials	<b>438,062</b>	202,712
Finished goods	<b>31,008</b>	55,135
	<u><b>469,070</b></u>	<u>257,847</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 13. 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:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Aged:		
Less than 30 days	218,565	107,501
31 – 60 days	61,070	39,573
61 – 90 days	4,194	7,060
Over 90 days	3,889	1,940
	<b>287,718</b>	156,074

## 14. AMOUNT DUE FROM A RELATED COMPANY

The amount represents trading balance due from Lee & Man Industrial Manufacturing Limited (“Lee & Man Industrial Manufacturing”) which is an associate (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)) of Fortune Star Tradings Ltd. (“Fortune Star”). Fortune Star and the Company are under the control of the same discretionary trust, the discretionary beneficiaries of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond, both of whom are directors of the Company. The amount for both years is aged less than 30 days.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 15. TRADE AND BILLS PAYABLE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Aged:		
Less than 30 days	106,774	44,740
31 – 60 days	6,098	10,776
61 – 90 days	461	5,670
Over 90 days	7,241	1,647
	<u>120,574</u>	<u>62,833</u>

## 16. LAND COSTS PAYABLE

The balance represents the amount payable for the acquisition of land which is repayable as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	9,553	9,554
More than one year, but not exceeding two years	–	9,553
	<u>9,553</u>	<u>19,107</u>
Less: Amount due within one year shown under current liabilities	<u>(9,553)</u>	<u>(9,554)</u>
Amount due after one year	<u>–</u>	<u>9,553</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 17. BANK BORROWINGS

	THE GROUP		THE COMPANY
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000
Bank loans	721,210	292,453	400,000
Bank import loans	169,124	148,478	–
Bank overdraft	2,336	–	–
	<b>892,670</b>	440,931	<b>400,000</b>
Borrowing costs:			
Incurred during the year	5,000	–	5,000
Amortised during the year	(278)	–	(278)
At 31 March	4,722	–	4,722
Carrying value at 31 March	<b>887,948</b>	440,931	<b>395,278</b>
Analysed as:			
– secured	–	174,528	–
– unsecured	887,948	266,403	395,278
	<b>887,948</b>	440,931	<b>395,278</b>
The bank borrowings are repayable as follows:			
Within one year or on demand	578,196	440,931	85,526
More than one year, but not exceeding two years	159,226	–	159,226
More than two years, but not exceeding five years	150,526	–	150,526
	<b>887,948</b>	440,931	<b>395,278</b>
Less: Amount due within one year shown under current liabilities	(578,196)	(440,931)	(85,526)
Amount due after one year	<b>309,752</b>	–	<b>309,752</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 18. AMOUNT DUE TO FORMER ULTIMATE HOLDING COMPANY

The amount represented balance due to Fortune Star which was unsecured, non-interest bearing and was fully repaid during the year.

At 31 March 2003, the repayment of an amount of HK\$693,500,000 was subordinated to a bank for banking facilities granted to the Group.

## 19. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and the balance will be used to settle the subscription payable for the 120,000,000 new shares of HK\$0.10 each in April 2004 as mentioned in note 29(a). Accordingly, such amount has been classified as non-current.

## 20. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each		
On date of incorporation	3,800,000	380
Increase in authorised share capital	1,996,200,000	199,620
At 31 March 2004	<u>2,000,000,000</u>	<u>200,000</u>

	Number of ordinary shares	Amount HK\$'000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each		
Issue of share to subscriber	1	–
Issue of shares on acquisition of subsidiaries	29,999,999	3,000
Issue of shares by capitalisation of share premium	532,500,000	53,250
Issue of shares under global offering	187,500,000	18,750
Exercise of over-allotment option	28,124,000	2,812
Exercise of share options	62,406,000	6,241
At 31 March 2004	<u>840,530,000</u>	<u>84,053</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 20. SHARE CAPITAL (Continued)

Details of the changes in the Company's share capital for the period ended 31 March 2004 are as follows:

- (a) 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 11 June 2003, 1 ordinary share of HK\$0.10 was allotted and issued, for cash at par to the subscriber.
- (b) Pursuant to the written resolutions passed by the sole shareholder of the Company on 11 September 2003:
  - (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 ordinary shares of HK\$0.10 each which rank pari passu with the then existing shares in all respects; and
  - (ii) the Company issued 29,999,999 new ordinary shares of HK\$0.10 each for the acquisition of subsidiaries pursuant to the Corporate Reorganisation as set out in note 1.
- (c) Conditional on the share premium account of the Company being credited as a result of the issue of shares under global offering in (d) below, the Company issued 532,500,000 ordinary shares of HK\$0.10 each in the Company to the then existing shareholders of the Company by capitalising the Company's share premium account.
- (d) On 26 September 2003, by means of issue of new shares under global offering, the Company issued a total of 187,500,000 ordinary shares of HK\$0.10 each at a price of HK\$4.17 per share.
- (e) Pursuant to the underwriting agreements dated 15 September 2003 and 20 September 2003, CLSA Limited ("CLSA") was granted an over-allotment option by the Company pursuant to which the Company was required to issue and allot up to an aggregate of 28,124,000 additional new ordinary shares of HK\$0.10 each in the Company at a price of HK\$4.17 per share. CLSA exercised the option to require the Company to issue such 28,124,000 additional new ordinary shares at a price of HK\$4.17 per share on 15 October 2003.
- (f) During the year, 62,406,000 share options under the Pre-IPO Share Option Scheme were exercised at a subscription price of HK\$4.17 per share, resulting in the issue of 62,406,000 ordinary shares of HK\$0.10 each in the Company.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 21. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
Premium arising on issue of shares	1,131,582	–	–	1,131,582
Capitalisation of share premium	(53,250)	–	–	(53,250)
Expenses incurred in connection with the issue of shares	(35,894)	–	–	(35,894)
Reserve arising on acquisition of subsidiaries	–	634,977	–	634,977
Loss for the period	–	–	(5,056)	(5,056)
<b>At 31 March 2004</b>	<b>1,042,438</b>	<b>634,977</b>	<b>(5,056)</b>	<b>1,672,359</b>

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company pursuant to the Corporate Reorganisation and the nominal value of the Company's shares issued for the acquisition.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated loss which in aggregate amounted to approximately HK\$1,672 million as at 31 March 2004. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

## 22. SHARE OPTION SCHEMES

Pursuant to the written resolution of the shareholders of the Company dated 11 September 2003, two share option schemes, namely Share Option Scheme (the "Scheme") and Pre-IPO Share Option Scheme (the "Pre-IPO Scheme"), were approved and adopted.

The Scheme and the Pre-IPO Scheme were established for the purpose of providing incentives to directors and eligible persons. The Scheme and Pre-IPO Scheme will remain in force for a period of ten years and three years, respectively from adoption of the schemes and will expire on 10 September 2012 and 10 September 2006, respectively.

## 22. SHARE OPTION SCHEMES (Continued)

### (i) Share Option Scheme

Under the Scheme, the Board of Directors of the Company (the "Directors") may at their discretion grant options to (i) any director (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group in which the Group holds an equity interest or a subsidiary of such company ("Affiliate"); or (ii) any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, promoters, service providers of any member of the Group as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

Options granted must be taken up within 28 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company at any point in time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK\$1 as consideration for grant of option each time. The exercise price is equal to the highest of (i) nominal value of the Shares; (ii) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant; and (iii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant.

No option was granted by the Company under the Scheme since its adoption.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 22. SHARE OPTION SCHEMES (Continued)

### (ii) Pre-IPO Scheme

The principal terms of the Pre-IPO Scheme, approved and amended by written resolutions of the shareholders of the Company dated 11 September 2003, are similar to the terms of the Scheme except for the followings:

- (a) The subscription price per share shall be the price per public offer share on the initial public offering ("Offer price"); and
- (b) Save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of the shares of the Company on the Stock Exchange.

On 11 September 2003, the Company granted share options under the Pre-IPO Scheme to the Directors and certain employees of the Group, which entitles them to subscribe for a total of 75,000,000 shares at HK\$4.17 per share.

Save and except to Gold Best, all other holders to whom options have been granted under the Pre-IPO Scheme will be entitled to exercise (i) up to 50% of the options granted to him/her at any time after the expiry of 6 months till the first anniversary of the listing date, (ii) up to 75% of the options granted to him/her of any time until the second anniversary of the listing date, (iii) up to 100% of the options granted to him/her at any time until the third anniversary of the listing date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 22. SHARE OPTION SCHEMES (Continued)

### (ii) Pre-IPO Scheme (Continued)

The following table discloses details of the Company's options under the Pre-IPO Scheme held by employees (including directors) and movement in such holdings during the period:

Category	Date of grant	Exercise price HK\$	Granted during the period	Exercised during the period	Outstanding at 31.3.2004
Shareholders	11 September 2003	4.17	61,000,000	(61,000,000)	–
Directors	11 September 2003	4.17	5,800,000	–	5,800,000
Senior management	11 September 2003	4.17	2,500,000	(400,000)	2,100,000
Employees	11 September 2003	4.17	3,400,000	(606,000)	2,794,000
Others	11 September 2003	4.17	2,300,000	(400,000)	1,900,000
			<u>75,000,000</u>	<u>(62,406,000)</u>	<u>12,594,000</u>

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under the Pre-IPO Scheme were exercised was HK\$5.097.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting share issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 23. OPERATING LEASE COMMITMENTS

At the balance sheet date, 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:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	425	120
In the second to fifth year inclusive	203	–
	<u>628</u>	<u>120</u>

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.

## 24. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>537,419</u>	<u>271,886</u>

## 25. PLEDGE OF ASSETS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	<u>28,511</u>	<u>555,707</u>

At 31 March 2004, the Group had not utilised any of the banking facilities which was secured by the above assets of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 26. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY
	2004	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	158	–	–
Guarantees given to banks in respect of banking facilities extended to subsidiaries	–	–	1,387,359

## 27. RETIREMENT BENEFITS PLANS

### (i) Plans for Hong Kong employees

#### Defined benefit plan

The Group is a member of a defined benefit plan which was open to qualified employees of companies under the control of Fortune Star. In December 2000, all the then existing members of the defined benefit plan were enrolled into a MPF Scheme and their accrued benefits for the past services under the defined benefit plan were frozen as at 30 November 2000. The defined benefit plan was closed to new employees from December 2000 onwards.

Under the defined benefit plan, employees are entitled to retirement benefits varying between 0 and 100% of their salary as at 30 November 2000 multiplied by the pensionable service up to 30 November 2000 on attainment of a retirement age of 55. No other post-retirement benefits are provided.

The most recent SSAP 34 actuarial valuation of the plan assets and the present value of the defined benefit obligation was carried out as at 31 March 2004 by HSBC Life (International) Limited. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2004	2003
	per annum	per annum
Discount rate	5%	5%
Expected return on plan assets	5%	5%
Expected rate of salary increases	0%	0%



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 27. RETIREMENT BENEFITS PLANS (Continued)

### (i) Plans for Hong Kong employees (Continued)

#### Defined benefit plan (Continued)

The SSAP 34 actuarial valuation showed that the market value of plan assets at 31 March 2004 was HK\$1,331,000 (2003: HK\$1,451,000).

The credit recognised in the consolidated income statement in respect of the defined benefit plan is as follows:

	2004 HK\$'000	2003 HK\$'000
Interest cost	8	9
Expected return on plan assets	(67)	(66)
Total, included in other operating income	(59)	(57)

The actual return on plan assets for the year was HK\$71,000 (2003: HK\$65,000).

The amount included in the balance sheet in respect of the Group's defined benefit assets is as follows:

	2004 HK\$'000	2003 HK\$'000
Fair value of plan assets	1,331	1,451
Unrecognised actuarial gains	(77)	(8)
Present value of funded obligations	–	(248)
	1,254	1,195

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 27. RETIREMENT BENEFITS PLANS (Continued)

### (i) Plans for Hong Kong employees (Continued)

#### Defined benefit plan (Continued)

Movements in the net assets in the year were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At beginning of the year	1,195	1,138
Amounts credited to income	59	57
At end of the year	<u>1,254</u>	<u>1,195</u>

#### Defined contribution plan

The Group operates a MPF Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes the lower of HK\$1,000 or 5% of the relevant monthly payroll costs to the MPF Scheme.

### (ii) Plans for PRC employees

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 28. CONNECTED TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with connected persons at the balance sheet date as follows:

Name of party	Nature of transactions/balance	Notes	THE GROUP	
			2004 HK\$'000	2003 HK\$'000
Lee & Man Industrial	Finished goods sold	(a)	79,767	90,943
Manufacturing	Waste paper purchased	(b)	6,275	5,349
	Steam sold	(c)	1,560	1,560
	Licence fee paid	(d)	783	674
	Balance due from Lee & Man Industrial Manufacturing		1,444	684
Lee & Man Management Company Limited ("Lee & Man Management")	Management fee paid	(e)	505	–

Notes:

- (a) The prices were based on the monthly quote given by the Group provided that the quote was not higher than the prevailing market price at the time of such quotation.
- (b) The prices were based on the monthly quote given by Lee & Man Industrial Manufacturing provided that the quote was not higher than the prevailing market price at the time of such quotation.
- (c) Lee & Man Industrial Manufacturing paid 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 fees were charged in accordance with the relevant licence agreements.
- (e) Lee & Man Management is a subsidiary of Lee and Man Holding Limited ("Lee & Man Holding"). Lee & Man Holding is beneficially owned by Fortune Star which is an associate (as defined in the Listing Rules) of Newcourt Trustees, a substantial shareholder of the Company. The management fee was charged at a pre-agreed rate of HK\$72,076.94 per month for the use of the administrative and secretarial services provided by Lee & Man Management and the right to use its premises as registered office.

In addition, the Company had issued shares to shareholders of the Company pursuant to the Corporate Reorganisation, details of which are set out in notes 20 and 22.

Details of the balances with former ultimate holding company and ultimate holding company are set out in notes 18 and 19 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 29. POST BALANCE SHEET EVENTS

The following events occurred subsequent to 31 March 2004:

- (a) On 26 March 2004, Gold Best entered into a subscription agreement to subscribe for an aggregate of 120,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$6.745 per share. The subscription was completed in April 2004. Details of this transaction are set out in the announcement made by the Company on 26 March 2004.
- (b) On 28 April 2004, the Group entered into an agreement with independent third parties for the acquisition of a paper machine at a consideration of US\$28,118,000 (equivalent to approximately HK\$219,320,000). Details of this transaction are set out in a circular of the Company dated 18 May 2004.

## 30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which were wholly-owned by the Company at 31 March 2004, are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Able Advance International Limited	British Virgin Islands	Ordinary shares – US\$4	Investment holding
Lee & Man Paper Mfg. (H.K.) Limited	Hong Kong	Ordinary shares – HK\$2	Investment holding
Lee & Man Industries Company Limited	British Virgin Islands	Ordinary share – US\$1	Investment holding
Lee & Man Paper International Limited	British Virgin Islands	Ordinary shares – US\$100	Investment holding
Evergreen Trading Company Limited	Malaysia	Ordinary shares – US\$2	Procurement of raw materials

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 30. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Lee Kwok (Macao Commercial Offshore) Trading Limited	Macau	MOP100,000	Procurement of raw materials
東莞理文造紙廠有限公司 (Dongguan Lee & Man Paper Factory Co., Ltd.)	PRC (note)	Registered capital – US\$118,480,000	Manufacturing of paper
江蘇理文造紙有限公司 (Jiangsu Lee & Man Paper Manufacturing Company Limited)	PRC (note)	Registered capital – US\$53,458,273	Manufacturing of paper

Note: The companies are wholly foreign owned investment enterprises established in the PRC.

With the exception of Able Advance International Limited, all the subsidiaries are indirectly held.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.