

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 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

	Notes	Six months ended 30 September	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,257,701	798,631
Cost of sales		(988,001)	(610,083)
Gross profit		269,700	188,548
Other operating income		3,114	6,730
Distribution costs		(21,961)	(13,298)
Administrative expenses		(49,699)	(32,519)
Profit from operations	3	201,154	149,461
Interest on bank borrowings wholly repayable within 5 years		(4,036)	(8,533)
Profit before taxation		197,118	140,928
Taxation	4	(2,830)	(3,000)
Profit for the period		194,288	137,928
Interim dividend		—	—
Earnings per share (HK cents)	5		
— Basic		20.31	24.30
— Diluted		20.22	24.15

Interim results

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	6	2,560,132	2,025,562
Deposits paid on acquisition of property, plant and equipment		67,941	113,359
		2,628,073	2,138,921
CURRENT ASSETS			
Inventories	7	337,101	469,070
Trade and bills receivables	8	326,520	287,718
Deposits, prepayments and other receivables		336,995	158,998
Retirement benefit assets		1,254	1,254
Amount due from a fellow subsidiary		24,254	1,444
Bank balances and cash		61,593	351,718
		1,087,717	1,270,202
CURRENT LIABILITIES			
Trade and bills payables	9	66,797	120,574
Accruals and other payable		190,529	122,915
Taxation payable		10,080	7,250
Land costs payable — due within one year		—	9,553
Bank borrowings — due within one year		401,801	578,196
		669,207	838,488
NET CURRENT ASSETS		418,510	431,714
TOTAL ASSETS LESS CURRENT LIABILITIES		3,046,583	2,570,635
NON-CURRENT LIABILITIES			
Amount due to ultimate holding company		—	357,485
Bank borrowings — due after one year		230,280	309,752
		230,280	667,237
		2,816,303	1,903,398
CAPITAL AND RESERVES			
Share capital	10	96,155	84,053
Reserves		2,720,148	1,819,345
		2,816,303	1,903,398

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2004*

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash generated from operating activities	70,040	126,952
Net cash used in investing activities	(464,683)	(322,585)
Net cash generated from financing activities	104,518	513,281
Net (decrease) increase in cash and cash equivalents	(290,125)	317,648
Cash and cash equivalents brought forward	351,718	23,261
Cash and cash equivalents carried forward represented by bank balances and cash	61,593	340,909

Interim results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2004	84,053	1,042,438	19,463	(2,999)	760,443	1,903,398
Issue of shares	12,102	801,923	—	—	—	814,025
Exchange difference arising from translation of financial statements of overseas operations	—	—	747	—	—	747
Profit for the period	—	—	—	—	194,288	194,288
Dividend paid	—	—	—	—	(96,155)	(96,155)
At 30 September 2004	96,155	1,844,361	20,210	(2,999)	858,576	2,816,303

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003	—	—	18,950	1	475,565	494,516
Issue of shares on acquisition of subsidiaries	3,000	—	—	—	—	3,000
Issue of shares under global offering	18,750	763,125	—	—	—	781,875
Issue of shares by capitalization of share premium	53,250	(53,250)	—	—	—	—
Expenses incurred in connection with the issue of shares	—	(32,695)	—	—	—	(32,695)
Reserve arising on acquisition of subsidiaries	—	—	—	(3,000)	—	(3,000)
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	677,180	8,218	(2,999)	624,674	1,382,073

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention. 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 2004.

2. SEGMENTAL INFORMATION

Business Segments

No business segment analysis is provided as over 90% 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC other than Hong Kong	586,163	283,504	93,663	52,893
Export sales delivered in the PRC*	613,040	504,907	97,958	94,530
Others	58,498	10,220	9,347	1,843
	1,257,701	798,631	200,968	149,266
Interest income			186	195
Finance costs			(4,036)	(8,533)
Profit before taxation			197,118	140,928
Taxation			(2,830)	(3,000)
Profit attributable to shareholders			194,288	137,928

* 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.

Interim results

3. PROFIT FROM OPERATIONS

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	1,140	1,231
Other staff costs	26,490	19,992
Retirement benefits scheme contributions	518	458
Total staff costs	28,148	21,681
Depreciation and amortization	35,634	24,725
Loss on disposal of property, plant and equipment	15	34
Loss on write-off of property, plant and equipment	7,312	—
Operating lease rentals in respect of land and buildings	522	397

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 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 after taking into account the relevant tax incentives.

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 the 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.

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	
	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	194,288	137,928
	Number of shares	Number of shares
Weighted average number of share for the purpose of basic earnings per share	956,612,765	567,622,950
Potential dilutive effect arising from over-allotment option and share options	4,374,933	3,509,968
Weighted average number of share for the purpose of diluted earnings per share	960,987,698	571,132,918

6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$578 million (six months ended 30 September 2003: HK\$300 million) on property, plant and equipment to expand its operations.

7. INVENTORIES

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Raw materials	296,127	438,062
Finished goods	40,974	31,008
	337,101	469,070

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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Aged		
Less than 30 days	205,330	218,565
31-60 days	85,407	61,070
61-90 days	19,593	4,194
Over 90 days	16,190	3,889
	326,520	287,718

9. TRADE AND BILLS PAYABLES

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

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Aged		
Less than 30 days	40,649	106,774
31-60 days	8,920	6,098
61-90 days	2,324	461
Over 90 days	14,904	7,241
	66,797	120,574

Interim results

10. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorized:		
Ordinary shares of HK\$0.10 each		
On date of incorporation	3,800,000	380
Increase in authorized share capital	1,996,200,000	199,620
At 31 March 2004 and 30 September 2004	2,000,000,000	200,000
Issued and fully paid:		
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 capitalization 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	840,530,000	84,053
Issue of new shares	120,000,000	12,000
Exercise of share options	1,018,000	102
At 30 September 2004	961,548,000	96,155

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.

Notes:

- 120,000,000 ordinary shares were issued on 8 April 2004 pursuant to a top-up placing and subscription arrangement.
- During the period, 1,018,000 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 1,018,000 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.

11. COMMITMENTS

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	424,045	537,419

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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Within one year	861	425
In the second to fifth year inclusive	252	203
	1,113	628

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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Property, plant and equipment	—	28,511

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	
		2004 HK\$'000	2003 HK\$'000
Finished goods sold	(a)	43,583	40,519
Waste paper purchased	(b)	3,778	3,226
Steam sold	(c)	780	780
Licence fee paid	(d)	431	352
Management fee paid	(e)	366	72

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 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. REVIEW OF INTERIM ACCOUNTS

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