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理文造紙有限公司\*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

## PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE 2011

The Company has entered into the Subscription Agreement dated 20 December, 2005 with Deutsche Bank in connection with the issue by the Company of the Convertible Bonds with an aggregate principal amount of HK\$1,000 million (including Convertible Bonds in an aggregate principal of HK\$200 million to be issued pursuant to the Increased-Issue Option which was exercised by Deutsche Bank in full on 20 December, 2005). The Convertible Bonds are convertible into ordinary shares of HK\$0.10 each in the share capital of the Company. The Company intends to apply for the listing of the Convertible Bonds by way of selectively marketed securities on the Hong Kong Stock Exchange.

The Subscription Agreement may be terminated under certain circumstances as described in the paragraph headed "Termination".

The Company will apply to the Stock Exchange for the listings of, and permission to deal in, the Convertible Bonds (by way of selectively marketed securities) and the Shares to be issued and allotted upon conversion of the Convertible Bonds.

The estimated net proceeds of the Convertible Bond issue (the Increased-Issue Option having been exercised in full), after deduction of commission and administrative expenses are HK\$971 million. At present the Directors intend that the net proceeds will be applied to finance the Group's acquisition of Paper Machine PM VIII, details of which were set out in its announcement of 15 December, 2005 and related production equipment and service, as well as possible future acquisitions of paper manufacturing machines related production equipment and service, and related facilities as well as to fund the Group's general working capital and general business purposes. The Directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of proceeds from time to time. Further announcements will be made if necessary.

The Company has amongst other things undertaken that neither it nor any of its subsidiaries or other affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period of 90 days after the Closing Date, without the prior written consent of Deutsche Bank (such consent not to be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, except issuances of Shares pursuant to Employees Share Options or exercise of Conversion Rights other obligations in existence at the date of the Subscription Agreement and disclosed to Deutsche Bank.

**Shareholders and potential investors should exercise caution when dealing in the securities of the Company.**

Trading in the Shares was suspended from 2:30 p.m. on 20 December, 2005 pending the release of this announcement. Application has been made for the resumption of trading in the Shares on the Stock Exchange at 9:30 a.m. on 22 December, 2005.

### Subscription Agreement

Date: 20 December, 2005

- Parties:
- (1) The Company as issuer
  - (2) Deutsche Bank, as subscriber. Deutsche Bank is a listed company. To the best of the directors' knowledge, information and belief having made all reasonable enquiry, Deutsche Bank and the ultimate beneficial owners of Deutsche Bank are third parties independent of the Company and connected persons of the Company.

Subject to the fulfilment of the conditions set out below under the section headed "Conditions of the Subscription Agreement", Deutsche Bank agreed, inter alia, to subscribe, and pay for, the Convertible Bonds with an aggregate principal amount of HK\$800 million. The Company also granted to Deutsche Bank the Increased-Issue Option, which was exercised, in whole, to require the Company to issue the Optional Bonds with an aggregate principal amount up to HK\$200 million.

The Convertible Bonds will be offered outside the United States to professional investors and are being privately placed with certain professional investors in Hong Kong. None of the Convertible Bonds will be offered to the public in Hong Kong. As far as the Company is aware, the Convertible Bonds have been placed to more than six independent third parties who are not connected with the Company, its directors, chief executive or substantial shareholder and its subsidiaries and any of their respective associates (as "associate" is defined in the Listing Rules). The Convertible Bonds will not be offered in the United States, Canada or Japan. The offer of the Convertible Bonds may be subject to stabilisation activities conducted in accordance with applicable laws and regulations. Such stabilisation may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements and, if commenced, may be discontinued at any time.

### Undertakings

The Company has amongst other things undertaken that neither it nor any of its subsidiaries or other affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period of 90 days after the Closing Date, without the prior written consent of Deutsche Bank (such consent not to be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, except issuances of Shares pursuant to Employees Share Options or exercise of Conversion Rights other obligations in existence at the date of the Subscription Agreement and disclosed to Deutsche Bank.

The Major Shareholder has undertaken not to sell any Shares or enter into transactions that have an effect similar to a sale as described in the Subscription Agreement for a period of 90 days after the Closing Date (as defined under the Subscription Agreement).

### Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon, amongst other things:

1. the execution of a trust deed constituting the Convertible Bonds and incorporating the terms and conditions of the Convertible Bonds and a paying agency agreement, each in a form satisfactory to Deutsche Bank and certain other documentation ancillary to the transactions described in the Subscription Agreement in forms to be agreed by Deutsche Bank and the other parties to that documentation such as a trustee and paying agents; and
2. the Listing Committee of the Stock Exchange of Hong Kong granting listing of, and permission to deal in, the Bonds and the Shares which may fall to be issued upon conversion of the Convertible Bonds.

### Termination

**The Subscription Agreement may be terminated in certain circumstances. In particular, Deutsche Bank may terminate the Subscription Agreement forthwith by notice in writing to the Company given at any time on or prior to the payment of the net subscription monies for the Convertible Bonds if:**

- A. Deutsche Bank is not satisfied with the results of a due diligence investigation of the Group for the purposes of the preparation of the offering circular to be published in connection with the issue of the Convertible Bonds, and the offering circular is not prepared in form and content satisfactory to Deutsche Bank on or before the date to be agreed for its publication;
- B. there shall have come to the notice of Deutsche Bank any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure by the Company to perform any of its undertakings or agreements in the Subscription Agreement;
- C. there shall have occurred any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls which would in Deutsche Bank's view be likely

\* For identification only

to prejudice materially the success of the offer of the Bonds to potential investors or the distribution of the Bonds or dealings in the Bonds in the secondary market;

- D. there shall have occurred a general moratorium or commercial banking activities in the People's Republic of China ("PRC") or the United Kingdom or United States of America or Hong Kong by any PRC, United Kingdom, New York State, United States Federal or Hong Kong authorities which would in Deutsche Bank's view be likely to prejudice materially the success of the offer and distribution of the Bonds or dealings in the Bonds in the secondary market;
- E. there shall have occurred an outbreak or escalation of hostilities or act of terrorism which would in Deutsche Bank's view be likely to prejudice materially the success of the offering or the distribution of the Bonds or dealings in the Bonds in the secondary market; or
- F. on or after the date the Subscription Agreement there shall have occurred either of the following: (i) a suspension or material limitation of trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc or the Hong Kong Stock Exchange; or (ii) a suspension in trading in the Company's securities on the Hong Kong Stock Exchange, which would in Deutsche Bank's view be likely to prejudice materially the success of the offering or the distribution of the Bonds or dealings in the Bonds in the secondary market.

Subject to the foregoing, the Subscription Agreement is expected to be completed, and the Convertible Bonds to be issued, on the Closing Date.

The aggregate principal amount of the Convertible Bonds of HK\$1,000 million will on issue be convertible into approximately 83 million new Shares at the initial Conversion Price of HK\$12.04 per Share, representing approximately 8.62% of the existing issued share capital and 7.94% of the issued share capital as enlarged by the Shares to be issued upon conversion of the Convertible Bonds, but without taking into account Shares which may be issued upon exercise of Employees Share Options.

The Conversion Price of HK\$12.04 per Share represents a premium of 40.0% to the closing price of the Shares of HK\$8.60 at noon on 20 December, 2005 when the Shares were last traded before its suspension and a premium of 44.1% to HK\$8.355 being the 10 day weighted average price of the Shares over the 10 trading days up to and including noon on 20 December, 2005.

The Shares issuable upon conversion of the Convertible Bonds will be issued and allotted by the Company pursuant to the general mandate granted to the Directors at the annual general meeting held on 12 August, 2005 which permits the issue and allotment of up to 192,676,000 Shares. No Shares have been issued under that mandate.

### PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal material terms of the Convertible Bonds, which will be constituted by a trust deed to be entered into between the Company and a trustee to be appointed and the directors consider should be drawn to the attention of the shareholders in this announcement are summarised as follows:

#### Principal Amount

The aggregate principal amount of the Convertible Bonds will be HK\$800 million, or HK\$1,000 million if the Increased-Issue Option is exercised in full.

#### Issue Price

100% of the principal amount of the Convertible Bonds.

#### Redemption Price at Maturity

124.92% of the principal amount of the Convertible Bonds representing a gross yield of 4.5% per annum, calculated on a semi-annual basis.

#### Interest

Save for default interest at the rate of 5%, the Convertible Bonds will carry no interest.

#### Conversion Price

The Convertible Bonds will be convertible into Shares at an initial conversion price of HK\$12.04 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues and other dilutive events.

#### Conversion Price Reset

If the arithmetic average of the closing price of the Shares for each day during the 15 consecutive Stock Exchange trading days ending 60 days before each anniversary of the Closing Date of the Convertible Bonds is less than the Conversion Price then in effect, the Conversion Price may be adjusted downwards at the option of the Company, such that the adjusted Conversion Price in no event shall be less than 80% of the initial Conversion Price. If the Conversion Price were to be reset to 80% of the initial Conversion Price, the Convertible Bonds will be convertible into approximately 103.8 million Shares which is issued and allotted pursuant to the general mandate referred to above and is in compliance with Rule 13.36 of the Listing Rules.

Any such adjustment to the Conversion Price shall only be a downward adjustment.

### Conversion Rights

Holders of the Convertible Bonds will have the right at any time on or after 15 days from the Closing Date up to, and including, the close of business on the business day seven days' prior to the Maturity Date to convert the Convertible Bonds into Shares at the Conversion Price, subject to adjustment. Conversion of the Convertible Bonds by persons other than residents of Hong Kong may be subject to certain restrictions under local laws.

Shares issued on conversion will rank pari passu in all respects with the Shares in issue as at the conversion date in all respects and will entitle the holders thereof to receive all future dividends and distributions which are declared, made or paid after the date of allotment of such Shares.

### Term of Convertible Bonds

Five years; due 2011.

### Transfer

The Convertible Bonds will be transferable without restrictions.

The Company will inform the Stock Exchange as soon as it receives notice that the Convertible Bonds are placed or transferred to connected persons of the Company (as "connected person" is defined in the Listing Rules).

### Redemption

Unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds will be redeemed at 124.92% of their principal amount in Hong Kong dollars on the Maturity Date, which is expected to give a gross yield of 4.5% per annum, calculated on a semi-annual basis, from the Closing Date of the Convertible Bond Issue to the Maturity Date.

### Redemption Option

On the Put Option Date, holders of the Convertible Bonds will have the right at their option, to require the Company to redeem all or part only of the Convertible Bonds at 109.31% of the principal amount of the Convertible Bonds being redeemed.

Upon the occurrence of a Change of Control or the Shares ceasing to be listed on the Stock Exchange, the holder of each Convertible Bond will have the right at such holder's option, to require the Company to redeem in whole but not in part the Convertible Bonds at the Early Redemption Amount.

### Redemption at the Option of the Company

On or at any time after the Redemption Date and prior to the Maturity Date, the Company may redeem all the Convertible Bonds at a redemption price equal to the Early Redemption Amount on the redemption date. No such redemption may be made unless (i) the closing price of the Shares for each of the 30 consecutive trading days, the last which falls within five trading days prior to the date upon which notice of such redemption is given was at least 130 per cent. of the applicable Early Redemption Amount in effect on such trading day divided by the Conversion Ratio or (ii) at least 90 per cent. in principal amount of the Convertible Bonds has already been converted, redeemed or purchased and cancelled.

The "Early Redemption Amount" of a Convertible Bond, for each HK\$10,000 principal amount of the Convertible Bonds, is determined so that it represents for the holder a gross yield of 4.5 per cent. per annum, calculated on a semi-annual basis.

### Form of the Convertible Bonds

The Convertible Bonds will be in registered form only and in denominations of HK\$10,000 each.

### Ranking of the Convertible Bonds

The Convertible Bonds will rank as direct, unsubordinated, unconditional and unsecured obligations of the Company and will at all times rank pari passu and without any preference or priority among themselves.

### Listing

The Company will apply to the Stock Exchange for the listings of, and permission to deal in, the Bonds and the Shares to be issued upon conversion of the Convertible Bonds. No application will be made for the listings of, and permission to deal in, the Convertible Bonds or such Shares on any other stock exchange.

### CHANGES TO THE SHAREHOLDING IN THE COMPANY AS A RESULT OF CONVERSION

Assuming that no other issue of Shares is made by the Company before conversion of the Convertible Bonds, the holding of the Major Shareholder after full conversion of the Convertible Bonds at the initial Conversion Price (the Increased-Issue Option having been exercised in full) will be 717.07 million Shares (approximately 68.52% of the enlarged issued share capital of the Company).

Assuming that all outstanding Employees Share Options (none of which are held by associates of the Major Shareholder) is also exercised, the aggregate shareholding of the Major Shareholder in the Company after full conversion of the Convertible Bonds (the Increased-Issue Option having been exercised in full) will be 717.07 million Shares (approximately 67.89% of the enlarged issued share capital of the Company).

### REASONS FOR AND BENEFITS OF THE CONVERTIBLE BOND ISSUE

The Convertible Bond Issue will, upon completion, raise funds for the Company of an aggregate gross sum of approximately HK\$1,000 million or, including the exercise of the Increased-Issue Option in full. The estimated net proceeds of the Convertible Bond issue (the Increased-Issue Option having been exercised in full), after deduction of commission and administrative expenses are HK\$971 million. At present the Directors intend that the net proceeds will be applied to finance the Group's acquisition of Paper Machine PM VIII, details of which were set out in its announcement of 15 December, 2005 and related production equipment and service, as well as possible future acquisitions of paper manufacturing machines related production equipment and service, and related facilities as well as to fund the Group's general working capital and general business purposes. The Directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of proceeds from time to time. Further announcements will be made if necessary. The Issue will also improve the liquidity position of the Group as well as potentially enhance the equity base and reduce the financing costs of the Group.

The net proceeds of the Convertible Bonds will be recognised as assets of the Company in its balance sheet and will be matched by a liability to the holders of the Convertible Bonds so there will be no material effect on the net assets and liabilities of the Company as a result.

The Company has not carried out any fund raising activities in the last 12 months.

### INFORMATION ON THE GROUP

The Group is one of the largest producers of containerboard in China in terms of production capacity and production volume and specialises in the production of linerboard and corrugating medium. The Group's linerboard and corrugating medium are divided into a range of grades with different specifications customised for different industrial and consumer packaging purposes.

### ADJUSTMENT TO EMPLOYEES SHARE OPTIONS

The exercise prices and the numbers of Shares to be issued upon exercise of the Employees Share Options will be adjusted (if required) in accordance with the terms and conditions of the scheme to which they relate upon completion of the Convertible Bond Issue. Announcements of any such adjustment will be made if and when appropriate.

### TRADING

Trading in the Shares was suspended from 2:30 p.m. on 20 December, 2005 pending the release of this announcement. Application has been made for the resumption of trading in the Shares on the Stock Exchange at 9:30 a.m. on 22 December, 2005.

Shareholders and investors should exercise caution in dealing in the securities in the Company.

### TERMS USED IN THIS ANNOUNCEMENT

In this announcement, the following terms have the meanings set opposite them:—

|                           |   |
|---------------------------|---|
| "Change of Control"       | occurs when:<br><br>(i) any Person or Persons acting together acquires Control of the Company if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Company on the Closing Date;<br><br>(ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Company or the successor entity; or<br><br>(iii) one or more Persons (other than any Person referred to in sub-paragraph (i) above) acquires the legal or beneficial ownership of all or substantially all of the Company's issued share capital. |
| "Closing Date"            | the date (expected to be on or around 13 January, 2006) on which the Convertible Bonds are first issued   |
| "Company"                 | Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange  |
| "Control"                 | the right to appoint and/or remove all or the majority of the members of the Company's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise  |
| "Conversion Price"        | the price per Share at which the Convertible Bonds may be converted into Shares   |
| "Conversion Ratio"        | the principal amount of each Convertible Bond divided by the applicable Conversion Price  |
| "Convertible Bond Issue"  | the subscription and issue of the Convertible Bonds with an aggregate principal amount of HK\$800 million or, in case of the exercise of the Increased-Issue Option in full, HK\$1,000 million, under the Subscription Agreement  |
| "Convertible Bonds"       | the Convertible Bonds of an aggregate principal amount of HK\$800 million or, in the case of exercise of the Increased-Issue Option in full, up to HK\$1,000 million, to be subscribed by Deutsche Bank   |
| "Deutsche Bank"           | Deutsche Bank AG Hong Kong Branch, a corporation deemed licensed under the Securities & Futures Ordinance (Cap. 571)  |
| "Directors"               | directors of the Company  |
| "Early Redemption Amount" | in relation to a Bond means the accreted value of that Bond up to the date of redemption  |
| "Employees Share Options" | outstanding share options granted pursuant to the "Pre-IPO" Share Option Scheme of the Company adopted on 11 September, 2003  |
| "Group"                   | the Company and its subsidiaries  |
| "HK\$"                    | Hong Kong dollars   |
| "Hong Kong"               | the Hong Kong Special Administrative Region of the People's Republic of China   |
| "Increased-Issue Option"  | the Increased-Issue Option granted by the Company to Deutsche Bank pursuant to which Deutsche Bank may require the Company to issue Optional Bonds with an aggregate principal amount up to HK\$200 million exercisable within 30 days after the Closing Date   |
| "Listing Rules"           | the Rules Governing the Listing of Securities on the Stock Exchange   |
| "Major Shareholder"       | Gold Best Holdings Ltd., the major shareholder of the Company interested in aggregate in approximately 75% of the existing issued share capital of the Company  |
| "Maturity Date"           | the fifth anniversary of the Closing Date of the Convertible Bond Issue   |
| "Person"                  | includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Company's directors or any other governing board and does not include the Company's wholly-owned direct or indirect subsidiaries  |
| "Put Option Date"         | the second anniversary of the Closing Date of the Convertible Bond Issue  |
| "Redemption Date"         | the second anniversary of the Closing Date of the Convertible Bond Issue  |
| "Share(s)"                | ordinary shares of HK\$0.10 each in the share capital of the Company  |
| "Shareholder(s)"          | holder(s) of Shares   |
| "Stock Exchange"          | The Stock Exchange of Hong Kong Limited   |
| "Subscription Agreement"  | a conditional subscription agreement entered into between, the Company and Deutsche Bank on 20 December, 2005 in connection with the issue by the Company of the Convertible Bonds with an aggregate principal amount of HK\$800 million or, on exercise of the Increased-Issue Option in full, HK\$1,000 million   |
| "United States" or "US"   | the United States of America, its territories and possessions, any State of the United States, and the District of Columbia   |

By Order of the Board  
**Lee Wan Keung Patrick**  
Chairman

Hong Kong, 21 December, 2005

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 Heng Kwoong Seng, Mr Wong Kai Tung Tony, and Ms Law Kar Shui Elizabeth.