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If you have sold or transferred all your securities in Lee & Man Paper Manufacturing Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

DISCLOSEABLE TRANSACTION

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	3
The Agreement	4
Proposed Further Acquisition of Assets	5
Reasons for the Acquisition	5
Information on the Group and the Vendor	6
Appendix – General information	7

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition of the Asset pursuant to the Agreement
“Agreement”	the agreement dated 12 December 2005, entered into between the Vendor and the Purchaser relating to the Acquisition
“Announcement”	the announcement dated 15 December 2005 issued by the Company
“Asset”	a paper machine to be purchased by the Purchaser pursuant to the Agreement
“associates”	has the meaning ascribed thereto the Listing Rules
“Board”	the board of Directors
“Company”	Lee & Man Paper Manufacturing Limited
“Directors”	the directors of the Company
“End of Erection Certificate”	refers to a type of certificate of acceptance between the parties after the equipment has been erected and the mechanical functions tested
“EURO”	Euro dollars. For information only, EURO have been translated to HK\$ as to 1 EURO to HK\$9.19. No representation is made that such amounts were or could be exchanged at such rates
“Further Acquisitions”	further acquisitions of production equipment and services for Paper Machine VIII
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Parties”	a party which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, is a third party independent of the Company and connected persons of the Company
“Latest Practicable Date”	30 December 2005

DEFINITIONS

“Lee & Man Industries” or “Purchaser”	Lee & Man Industries Company Limited, an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MT”	metric tonnes
“Paper Machine VIII”	a linerboard paper machine custom built in accordance with the specifications of the Company
“Shares”	ordinary shares of HK\$0.10 in the capital of the Company
“Shareholders”	holders of the Share(s)
“SFO”	Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Metso Paper Inc.

LETTER FROM THE BOARD



理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

Executive Directors:

Lee Wan Keung Patrick (*Chairman*)
Lee Man Chun Raymond
Lee Man Bun
Li King Wai Ross
Tan Siak Him Alexander

Non-executive Directors:

Professor Poon Chung Kwong

Independent Non-executive Directors:

Wong Kai Tung Tony
Heng Kwoo Seng
Law Kar Shui Elizabeth

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Principal Place of Business

in Hong Kong:
5th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

3 January 2006

To Shareholders of the Company

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

The Directors refer to the Company's Announcement in which it was announced that an indirect wholly-owned subsidiary of the Company, Lee & Man Industries, entered into the Agreement with the Vendor on 12 December 2005, an Independent Third Party, to purchase the Asset as Paper Machine VIII at the consideration of EURO 28,238,958 (approximately HK\$259,516,000). Paper Machine VII was acquired on 28 April 2004 and further details are set out in the Company's announcement dated 28 April 2004.

The Acquisition contemplated under the Agreement constitutes a discloseable transaction of the Company under the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

THE AGREEMENT

Date: 12 December 2005

Parties: Vendor: Metso Paper Inc., an Independent Third Party. To the best of the Directors knowledge and belief, the ultimate beneficial owners of the Vendor are not connected persons (as such term is defined in the Listing Rules) of the Company. The Company came to know the Vendor through its reputation in the market

Purchaser: Lee & Man Industries Company Limited, an indirect wholly-owned subsidiary of the Company

Asset: a main unit of a paper machine

Consideration: The consideration of EURO 28,238,958 (approximately HK\$259,516,000) was agreed after arm's length negotiations between the Vendor and the Purchaser by reference to the current market value of paper machine and shall be payable in cash as follows:

- (a) 10% of the total consideration (EURO 2,823,896 (representing approximately HK\$25,952,000)) as down payment to be paid by 26 December 2005;
- (b) 80% of the total consideration (EURO 22,591,166 (representing approximately HK\$207,613,000)) to be paid by after the delivery of the paper machine;
- (c) 5% of the total consideration (EURO 1,411,948 (representing approximately HK\$12,976,000)) to be paid after the presentation of the invoice and End of Erection Certificate as set out in the Agreement;
- (d) 5% of the total consideration (EURO 1,411,948 (representing approximately HK\$12,976,000)) to be paid after the issue of the certificate of acceptance under the Agreement.

Having regard to an alternative quote from another potential vendor for a machine with the same specifications, the Directors consider the terms of the Acquisition to be a fair reflection of current market value. The Directors are therefore of the view that the terms of Acquisition are fair and reasonable and the Acquisition is made in the best interest of the Shareholders.

LETTER FROM THE BOARD

Terms: The Vendors agree to sell and the Purchaser agree to purchase the Asset.

The Agreement was entered into in the ordinary and usual course of business of the Group.

PROPOSED FURTHER ACQUISITIONS OF ASSETS

The Group plans to acquire production equipment (such as stock preparation unit and pumps) in the coming 12 months from the date of the Agreement in relation, specifically, to Paper Machine VIII. It is expected that all parts for the main unit of Paper Machine VIII will be delivered to the Company in the last quarter of 2006 and, on that basis, it is expected that Paper Machine VIII will commence operations in the first quarter of 2007.

To the extent any individual Further Acquisition constitutes a discloseable transaction under the Listing Rules, the Company shall comply with the Listing Rules in that regard. Where Further Acquisitions, when aggregated with the Acquisition, constitute a major or other type of notifiable transaction under the Listing Rules, the Company shall comply accordingly.

REASONS FOR THE ACQUISITION

The Asset was purchased as the main unit of Paper Machine VIII to enhance the Group's annual production capacity of linerboard and corrugating medium. The production capacity of Paper Machine VIII is approximately 400,000 MT and will increase the capacity of the Group's annual capacity to approximately 2,000,000 MT (with annual capacity of paper machines I to VII of 1,600,000 MT).

The Group expects to fund the Acquisition through bank borrowings and/or internal resources. To the extent, as intended, that the Acquisition will be financed by bank borrowings, this is expected to increase the Group's bank borrowings.

As stated above, it is expected that Paper Machine VIII will commence operations in the first quarter of 2007. Until then, the investment in the Paper Machine VIII will not have any earnings or revenue. Save as disclosed above, the investment in the Project is not expected to have any material adverse effect on the earnings and assets and liabilities of the Group.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP AND THE VENDOR

The Group is a large-scale paper manufacturer and specialises in production of linerboard and corrugating medium.

The Vendor is a company incorporated in Finland and whose shares are listed on the New York Stock Exchange and the Helsinki Stock Exchange. It specialises in pulp and paper industry process, machinery, equipment and related processes. In 2004, the Vendor and its group companies had net sales of approximately EURO 1,559 million (approximately HK\$14,327 million). There is no relation between the Vendor and previous vendors of main paper machines units I to VII sold to the Group.

LISTING RULES

The Acquisition contemplated under the Agreement constitutes a discloseable transaction of the Company under the Listing Rules.

By order of the Board
Lee & Man Paper Manufacturing Limited
Lee Wan Keung Patrick
Chairman

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts concerning the Group the omission of which would make any statement herein misleading.

1. DISCLOSURE OF INTERESTS**Interests and short positions of Directors and chief executive in the share capital of the Company and its associated corporation**

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they would be deemed to taken to have under Sections 344 and 345 of the SFO) or which would be required to be disclosed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the register referred therein pursuant to Section 352 of the SFO.

Directors' interests in the Shares

Name of Director	Capacity	Number of ordinary shares	Number of ordinary shares subject to options granted under the Pre-IPO Share Option Scheme	Percentage of the issued share capital of the Company
Lee Wan Keung Patrick	Held by controlled corporation (<i>Note</i>)	717,070,000	–	74.43%
Lee Man Chun Raymond	Held by controlled corporation (<i>Note</i>)	717,070,000	–	74.43%
Lee Man Bun	Held by controlled corporation (<i>Note</i>)	717,070,000	–	74.43%
Li King Wai Ross	Beneficial owner	–	600,000	0.06%
Tan Siak Him Alexander	Beneficial owner	–	1,986,000	0.21%
Wong Kai Tung Tony	Beneficial owner	–	1,000,000	0.10%
Heng Kwo Seng	Beneficial owner	–	1,800,000	0.19%

Note: These shares were held by Gold Best Holdings Ltd. (“Gold Best”), whose entire issued share capital is held by Trustcorp Limited (“Trustcorp”) as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond and Mr Lee Man Bun (all of them are directors of the Company), certain of their family members and other charitable objects.

Directors' interests in associated corporations of the Company

Name of Director	Capacity	Name of associated corporation	Number of ordinary shares	Percentage of the issued shares capital of associated corporation
Lee Wan Keung Patrick	Held by controlled corporation (<i>Note</i>)	Gold Best	5	100%
Lee Man Chun Raymond	Held by controlled corporation (<i>Note</i>)	Gold Best	5	100%
Lee Man Bun	Held by controlled corporation (<i>Note</i>)	Gold Best	5	100%

Note: As Gold Best owns more than 50% interest of the Company, Gold Best is an associated corporation of the Company under the SFO. The entire issued share capital of Gold Best is owned by Trustcorp as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr Lee Wan Keung Patrick, Mr Lee Wan Chun Raymond and Mr Lee Man Bun (all of them are directors of the Company), certain of their family members and other charitable objects.

2. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive are aware of any other person who had an interest or short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Notifiable interests in Shares

Name of shareholder	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Gold Best	Beneficial owner	717,070,000	74.43%
Trustcorp	Held by controlled corporation	717,070,000	74.43%
Lee Wong Wai Kuen	Held by spouse (<i>Note</i>)	717,070,000	74.43%

Note: Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 717,070,000 ordinary shares as she is the spouse of Lee Wan Keung Patrick, a director of the Company.

3. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Group.

4. SERVICE CONTRACTS

Each of the directors has entered into a service contract with the Company, details of which are set out below:

Name of Director	Service Contract Effective Date	Service Terms	Salaries per annum HK\$
Lee Wan Keung	1 September 2003	Four years	Nil
Lee Man Chun Raymond	1 September 2003	Four years	2,016,000
Lee Man Bun	16 August 2004	Three years	1,002,000
Li King Wai Ross	12 August 2005	Three years	600,000
Tan Siak Him Alexander	1 September 2003	Four years	1,066,000
Poon Chung Kwong	1 February 2005	One year	Nil
Wong Kai Tung Tony	11 September 2005	One year	80,000
Heng Kwoo Seng	11 September 2005	One year	120,000
Law Kar Shui Elizabeth	1 January 2005	One year	Nil

5. COMPETING INTERESTS

None of the Directors of the Company (as defined in the Listing Rules) and their respective associates have any interest in a business, which competes or may compete with the business of the Group.

6. MISCELLANEOUS

- (a) The company secretary as well the qualified accountant of the Company is Mr Cheung Kwok Keung. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principle place of business of the Company in Hong Kong is located at 5th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.