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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 TRANSACTIONS
FORMATION OF JOINT VENTURE COMPANY
AND
ACQUISITION OF ASSETS**

* for identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition of the PM XV Assets pursuant to the Acquisition Agreement;
“Acquisition Agreement”	the agreement dated 10 April, 2007, entered into between Metso Paper Inc. as the Vendor and the Joint Venture Company relating to the acquisition of Paper Machine XV;
“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;
“EURO”	Euro dollars. For information only, EURO have been translated to HK\$ as to 1 EURO to HK\$10.425. No representation is made that such amounts were or could be exchanged at such rates;
“Group”	the Company and its subsidiaries;
“Guarantors”	three individuals who, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, own all the issued share capital of Wise Sense;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, PRC;
“Independent Third Parties”	independent third parties not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates;
“Joint Venture Agreement”	the joint venture agreement dated 10 April, 2007 entered into between Top Honour, Wise Sense, the Joint Venture Company and the Guarantors in relation to the regulation of the Joint Venture;
“Joint Venture Company”	Joint Creation Limited, a company incorporated in the British Virgin Islands;
“Latest Practicable Date”	20 April, 2007;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“MT”	metric tonnes;
“Paper Machine XV”	a linerboard paper machine custom built in accordance with the specifications of the Company to be assembled in Vietnam in accordance with the Acquisition Agreement;
“PM XV Assets”	a main unit of a paper machine for Paper Machine XV to be purchased by the Purchaser pursuant to the Acquisition Agreement;
“SFO”	the Securities and Futures Ordinance;
“Shareholders”	holders of the Share(s);
“Shares”	ordinary shares of HK\$0.10 in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Top Honour”	Top Honour Industries Limited, a company incorporated in the British Virgin Islands;
“US\$”	United States Dollars. For information only, US\$ have been translated into HK\$ as to US\$1 to HK\$7.8. No representation is made that such amounts were or could be exchanged at such rates;
“Vendor”	Metso Paper Inc.;
“Wise Sense”	Wise Sense Investments Limited, a company incorporated in the British Virgin Islands; and
“%”	per cent.

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

Registered Office

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Non-executive Directors:

Professor Poon Chung Kwong

*Principal Place of Business
in Hong Kong*

5th Floor, Liven House

61-63 King Yip Street

Kwun Tong

Kowloon

Hong Kong

Independent Non-executive Directors:

Wong Kai Tung Tony

Heng Kwo Seng

Law Kar Shui Elizabeth

20 April, 2007

To Shareholders of the Company

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS
FORMATION OF JOINT VENTURE COMPANY
AND
ACQUISITION OF ASSETS**

INTRODUCTION

The Company has, in an announcement dated 10 April, 2007, announced that its indirect wholly-owned subsidiary, Top Honour, had entered into the Joint Venture Agreement with Wise Sense on 10 April, 2007 relating to the regulation of the Joint Venture Company. The Joint Venture Company will be the holding company for a company to be established in Vietnam to engage principally in the production of linerboard and corrugating medium.

Further, the Joint Venture Company had entered into the Acquisition Agreement with the Vendor on 10 April, 2007 to purchase a main unit of paper machine for Paper Machine XV for EURO40,110,000 (approximately HK\$418,147,000) for the purpose of establishing a production line in Vietnam.

* for identification purpose only

LETTER FROM THE BOARD

Each of the transaction under the Joint Venture Agreement and the Acquisition Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information in relation to these transactions.

The Board considers that the material terms of the Joint Venture Agreement and the Acquisition are set out below:

THE JOINT VENTURE AGREEMENT

Date of the Agreement: 10 April, 2007

Parties:

- (a) Top Honour;
- (b) Wise Sense;
- (c) the Joint Venture Company; and
- (d) the Guarantors

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Wise Sense and its ultimate beneficial owner, as well as the Guarantors, are Independent Third Parties.

Share capital of the Joint Venture Company and Further Funding:

The issued capital of the Joint Venture Company consist 100 shares of US\$1.00 each, of which 75 and 25 shares were subscribed in cash and issued to Top Honour and Wise Sense respectively.

Both parties agreed that they will advance the aggregate amount of US\$170 million (approximately HK\$1,326 million) to the Joint Venture Company (as to US\$127.5 million (approximately HK\$994.5 million) by Top Honour and US\$42.5 million (approximately HK\$331.5 million) by Wise Sense), by way of further subscription of shares or shareholder loan or a combination thereof (as decided by the board of directors of the Joint Venture Company) such amount to be advanced as and when requested by the board of directors of the Joint Venture Company on a pro-rata basis according to their respective shareholding. The amount is determined by reference to what the parties expect to be requirements of the Joint Venture Company for its initial operations.

By virtue of Top Honour's 75% equity interests in the Joint Venture Company, the Joint Venture Company is a subsidiary of the Company.

Business of the Joint Venture Company:

The Joint Venture Company will, through a wholly-owned subsidiary to be established in Vietnam, be principally engage in the production of linerboard and corrugating medium.

LETTER FROM THE BOARD

**Composition of Board of
Directors and Management:**

The board of directors of the Joint Venture Company will consist of three directors, two of whom (including the chairman) shall be nominated by Top Honour and the other by Wise Sense.

The management and control of the affairs of the Company will be vested in the managing director of the Joint Venture Company to be appointed by the board of directors of the Joint Venture Company.

**Transfer of Shares in the Joint
Venture Company:**

Any transfer of shares and/or interests therein by Top Honour and Wise Sense will be subject to the first right of refusal to purchase on same terms by the other. Further, Wise Sense will not sell, transfer or otherwise dispose of all or part of its shares and/or any interest therein to any person other than Top Honour. If Wise Sense agrees to sell and Top Honour agrees to purchase the Shares, the sale price shall not exceed a price calculated based on a price earnings ratio of 12 applying the earnings of the Joint Venture Company as stated in its latest audited accounts, and if no audited accounts is then available, the latest management accounts.

Sale, transfer or disposal of any of shares in Wise Sense or any interests relating thereto shall also be subject to the consent of Top Honour.

Guarantee:

The Guarantors will jointly and severally guarantee the due and punctual payment of all amounts payable, and the obligations to be performed, by Wise Sense under the Joint Venture Agreement.

The Acquisition Agreement

Date:

10 April, 2007

Parties:

- (a) Vendor: The Vendor
- (b) Purchaser: The Joint Venture Company, a non-wholly owned subsidiary of the Company.

To the best of the Directors knowledge and belief, the Vendor and its ultimate beneficial owner are Independent Third Parties. The Company came to know the Vendor through its reputation in the market.

Asset:

a main unit of a paper machine for Paper Machine XV to be assembled in Vietnam.

LETTER FROM THE BOARD

Consideration:

The consideration of EURO40,110,000 (approximately HK\$418,147,000) was agreed after arm's length negotiations between the Vendors and the Purchaser by reference to the current market value of paper machines.

The Purchaser is required to pay 20% of the total consideration (EURO8,022,000 (approximately HK\$83,629,000)) as down payment against the Vendor's commercial invoice on or before 11 April, 2007 by telegraphic bank transfer.

The remaining 80% of the consideration will be paid to the Vendor by way of irrevocable and non-transferable letters of credit as follows:

- (a) 70% of the total consideration (EURO28,077,000 (approximately HK\$292,703,000)) will be paid pro rata upon each shipment against presentation of shipping documents; and
- (b) 10% of the total consideration (EURO4,011,000 (approximately HK\$41,815,000)) will be paid pro rata against presentation of, for the first 5%, erection documents and, for the remaining 5%, acceptance documents;

Other Information:

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

REASONS FOR AND BENEFIT OF THE FORMATION OF THE JOINT VENTURE COMPANY AND THE ACQUISITION

The Company has decided to diversify its production facilities to add to their current locations in the United States and the PRC. As Vietnam is a relatively low cost country, the Directors consider Vietnam to be an appropriate country for the establishment of the Group's production facilities.

The PM XV Assets are purchased for the establishment of the production facilities in Vietnam and will further enhance the Group's annual production capacity of linerboard and corrugating medium products. The production capacity of Paper Machine XV is approximately 400,000 MT and will, together with the paper machines acquired by the Group as previously announced in the Company's announcement dated 30 March, 2006 increase the capacity of the Group's annual capacity to approximately 3,430,000 MT.

The Group expects to fund Top Honour's contribution to the Joint Venture Company through its internal resources. It expects that the Joint Venture Company will fund the Acquisition through its internal resources.

LETTER FROM THE BOARD

The Directors are of the view that each of the transaction contemplated in the Joint Venture Agreement and the Acquisition Agreement is in the interests of the Company and the terms of each of the Joint Venture Agreement and the Acquisition Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Group does not expect that there will be any material impact on the earnings of the Group until the Paper Machine XV commence operations. In addition, there is not expected to be any significant impact on the assets and liabilities of the Group as a result of the formation of the Joint Venture Company and the Acquisition, since any decrease in the Group's internal resources will be matched by a corresponding increase in the Group's assets.

GENERAL

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

To the best of the Directors' knowledge and belief having made all necessary enquiries:

- (a) Wise Sense is a holding company incorporated in the British Virgin Islands and owned by the Guarantors; and
- (b) the Vendor is 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.

Each of the transaction under the Joint Venture Agreement and the Acquisition Agreement constitutes a discloseable transaction of the Company under Chapter 14 of 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 have 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>)	721,850,000	—	64.47%
Lee Man Chun Raymond	Held by controlled corporation (<i>Note</i>)	721,850,000	492,000	64.51%
Lee Man Bun	Held by controlled corporation (<i>Note</i>)	721,850,000	300,000	64.49%
Li King Wai Ross	Beneficial owner	—	600,000	0.05%
Tan Siak Him Alexander	Beneficial owner	300,000	600,000	0.08%
Poon Chung Kwong	Beneficial owner	50,000	480,000	0.05%
Wong Kai Tung Tony	Beneficial owner	400,000	—	0.04%
Heng Kwo Seng	Beneficial owner	942,000	—	0.08%

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. Mr. Lee Wan Keung Patrick and Mr. Lee Man Chun Raymond are directors of Gold Best.

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 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. Mr. Lee Wan Keung Patrick and Mr. Lee Man Chun Raymond are directors of Gold Best.

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	721,850,000	64.47%
Trustcorp	Held by controlled corporation	721,850,000	64.47%
Lee Wong Wai Kuen	Held by spouse (<i>Note</i>)	721,850,000	64.47%

Note: Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 721,850,000 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 <i>HK\$</i>
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, 2007	One year	Nil
Wong Kai Tung Tony	11 September, 2006	One year	80,000
Heng Kwo Seng	11 September, 2006	One year	120,000
Law Kar Shui Elizabeth	1 January, 2007	One year	Nil

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service contract with the Company which will not expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

5. COMPETING INTERESTS

None of the Directors of the Company (as defined in the Listing Rules) and their respective associates (as defined in the Listing Rules) 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, Grand Cayman KY1-1111, Cayman Islands. 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.