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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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LEE & MAN PAPER MANUFACTURING LIMITED

理文造紙有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2314)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF ASSETS**

A letter from the board of Directors of the Company is set out on pages 3 to 5 of this circular.

* For identification purpose only

18th May, 2004

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DEFINITIONS

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

“Acceptance Certification Date”	the date when the Acceptance Certificate as defined in the Agreement is issued
“Acquisition”	the acquisition of the Asset pursuant to the Agreement
“Agreement”	the agreement dated 28th April, 2004, entered into between Kanematsu Corporation and Mitsubishi Heavy Industries, Ltd. as Vendors and the Purchaser relating to the Acquisition
“Announcement”	the announcement of the Company dated 26th March, 2004
“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
“Further Acquisitions”	further acquisitions of production equipment and services for paper machine VII
“Gold Best”	Gold Best Holdings Ltd., the holding company of the Company, incorporated with limited liability in the British Virgin Islands on 24th February, 2003
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Latest Practicable Date”	14th May, 2004, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“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

DEFINITIONS

“Newcourt”	Newcourt Trustees Limited, a company incorporated in Jersey, the Channel Islands, as trustee for a discretionary trust, the discretionary objects of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond (both of whom are Directors), certain members of their family and other charitable objects
“SFO”	means Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares of HK\$0.10 in the capital of the Company
“Shareholders”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States. For information only, US\$ have been translated to HK\$ as to US\$1 to HK\$7.80. No representation is made that such amounts were or could be exchanged at such rates
“Vendors”	Kanematsu Corporation and Mitsubishi Heavy Industries, Ltd., vendors of production equipment

LETTER FROM THE BOARD

LEE & MAN PAPER MANUFACTURING LIMITED

理文造紙有限公司*

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Lee Wan Keung, Patrick (*Chairman*)

Lee Man Chun, Raymond

Tan Siak Him, Alexander

Independent non-executive Directors:

Wong Kai Tung, Tony

Heng Kwo Seng

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Principle place of business in

Hong Kong:

8th Floor, Liven House

61–63 King Yip Street

Kwun Tong

Kowloon

Hong Kong

18th May, 2004

To the shareholders of the Company

Dear Sirs or Madam,

**DISCLOSEABLE TRANSACTION
ACQUISITION OF ASSETS**

INTRODUCTION

On 28th April, 2004, the Board made an announcement that the Company has, on 28th April, 2004, entered into the Agreement to purchase the Asset as paper machine VII at the consideration of US\$28,118,000 (approximately HK\$219,320,400). The Group also proposes Further Acquisitions in relation to paper machine VII.

The purpose of this circular is to provide you with further information in relation to the Acquisition and the Further Acquisitions.

* *For identification purpose only*

LETTER FROM THE BOARD

THE AGREEMENT

- Date:** 28th April, 2004
- Parties:** Vendors: Kanematsu Corporation and Mitsubishi Heavy Industries, Ltd., both being companies incorporated in Japan and Independent Third Parties. To the best of the Directors knowledge, information and belief having made all reasonable enquiry, the Vendors and the beneficial owners in each of the Vendors are also not connected persons (as such term is defined in the Listing Rules) of the Company
- 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 US\$28,118,000 (approximately HK\$219,320,400) was agreed after arm's length negotiations between the Vendors and the Purchaser by reference to the current market value of paper machines and shall be payable in cash as follows:
- (i) US\$5,623,600 (approximately HK\$43,864,080) on 30th April, 2004;
 - (ii) US\$19,682,600 (approximately HK\$153,524,280) by 15th May, 2004; and
 - (iii) US\$2,811,800 (approximately HK\$21,932,040) within 6 months from the Acceptance Certification Date.
- Terms:** The Agreement is subject to the initial downpayment of US\$5,623,600 (approximately HK\$43,864,080) being paid on 30th April, 2004.
- 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 VII. Such production equipment is needed as part of the machinery specific to the operation of paper machine VII.

The Stock Exchange has confirmed that the Further Acquisitions within 12 months from the date of the Agreement will be aggregated with the Acquisition. 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. Otherwise, Further Acquisitions will not be the subject of further announcement or shareholder approval under the Listing Rules.

LETTER FROM THE BOARD

REASONS FOR THE ACQUISITION

The Asset was purchased as the main unit of paper machine VII as disclosed in the Announcement to enhance the Group's annual production capacity of linerboard and corrugating medium. As at the Latest Practicable Date, the Company had 6 paper machines, 5 of which were in use and 1 of which was under installation. Prior to the signing of the Acquisition, the Company had sought an aggregate of three quotations, namely, one from the Vendors, one from a German company and one from a Finnish company. The suppliers were chosen based on their reputation in the industry and with regard to the Group's previous experience in purchasing paper machines. Having regard to the current market values of paper machines, the Directors consider the terms of the Acquisition fair and reasonable and the Acquisition is made in the best interest of the Shareholders. The Acquisition will be funded by the net proceeds received from the subscription of the Company's shares by Gold Best subsequent to the placing of the Shares as set out in the Announcement. The Directors consider that the Acquisition will not have a significant effect on the assets and liabilities of the Group and the Group will have adequate working capital after the Acquisition.

INFORMATION ON THE GROUP

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

GENERAL

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

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of
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 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 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 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	Number of Shares interested (Long Position)	Capacity	Approximate percentage of Shares
Mr. Lee Wan Keung, Patrick	692,316,000 (Note 1)	Founder of a discretionary trust and discretionary object	72.06%
Mr. Lee Man Chun, Raymond	692,316,000 (Note 1)	Discretionary object	72.06%
Mr. Tan Siak Him, Alexander	3,000,000	Personal	0.31%
Mr. Wong Kai Tung, Tony	1,000,000	Personal	0.10%
Mr. Heng Kwoo Seng	1,800,000	Personal	0.19%

Note 1: These shares are held by Gold Best, whose entire issued share capital is held by Newcourt as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond (both of whom are Directors), certain of their family members and other charitable objects. Under the SFO, Mr. Lee Wan Keung, Patrick is also the founder of Fortune Star 1992 Trust.

Directors' interests in associated corporations of the Company

Name of Director	Capacity	Name of associated company	Number of shares interested	Percentage of the issued shares of the associated company
Mr. Lee Wan Keung, Patrick	Founder of a discretionary trust and discretionary object	Gold Best	5 (<i>Note</i>)	100%
Mr. Lee Man Chun, Raymond	Discretionary object	Gold Best	5 (<i>Note</i>)	100%

Note: As Gold Best owns more than 50% 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 Newcourt as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond (both of whom are directors of the Company), certain of their family members and other charitable objects. Consequently, Mr. Lee Wan Keung, Patrick and Mr. Lee Man Chun, Raymond are deemed to be interested in the shares of Gold Best.

2. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors are aware of any person, other than a director or chief executive of the Company, 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.

Notifiable interests in Shares

Name	Number of Shares on which interested (Long Position)	Capacity	% of issued share capital
Gold Best	692,316,000	Beneficial	72.06%
Lee Wong Wai Kuen	692,316,000	Family	72.06%
Newcourt	692,316,000	Corporate	72.06%

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. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31st March, 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. SERVICE CONTRACTS

Each of Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond and Mr. Tan Siak Him, Alexander entered into a service contract with the Company for an initial term of four years from 1st September, 2003. Mr. Wong Kai Tung, Tony and Mr. Heng Kwoong Seng entered into a service contract with the Company for an initial term of one year from 1st September, 2003. Their respective annual salaries under the service contracts are as follows:

Director	Salaries per annum (HK\$)
Mr. Lee Wan Keung, Patrick	Nil
Mr. Lee Man Chun, Raymond	1,800,000
Mr. Tan Siak Him, Alexander	1,066,000
Mr. Wong Kai Tung, Tony	120,000
Mr. Heng Kwoong Seng	200,000

6. COMPETITING 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.

7. 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 Society of 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 8th 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.