

LEE & MAN PAPER MANUFACTURING LIMITED

理文造紙有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

PLACING OF EXISTING SHARES

AND SUBSCRIPTION FOR NEW SHARES

Placing Agent



The Placing and the Subscription
Gold Best Holdings Ltd. which presently holds 74.30% of the issued shares of the Company, has agreed to place, through the Placing Agent, 53,000,000 Shares to independent investors at a price of HK\$6.745 per Share. On completion of the Placing, the Vendor will subscribe for 120,000,000 new Shares at the price of HK\$6.745 per Share.
The Placing is fully underwritten by the Placing Agent. The Placing Shares represent approximately 6.32% of the existing issued share capital of the Company of 839,124,000 Shares and approximately 5.53% of the Company’s issued share capital as enlarged by the Subscription of 120,000,000 new Shares. The net proceeds from the Subscription of approximately HK\$804 million will be earmarked as to approximately HK\$500 million for acquisition of paper machine VII, and as to the balance as working capital.
The Vendor has an interest of approximately 74.30% in the Company as at the date of this announcement which will be reduced to approximately 67.99% immediately upon completion of the Placing and will then be increased to approximately 71.99% immediately upon completion of the Subscription, assuming no other changes to the issued share capital of the Company and the shareholding of the Vendor prior to completion of the Subscription.
The Placing is unconditional but subject to termination on the occurrence of certain events, set out in greater detail below, at any time before completion of the Placing. Assuming such termination right is not exercised, completion of the Placing is expected to take place on Wednesday, 31st March, 2004. The Subscription is subject to completion of the Placing and permission from the Stock Exchange for the listing of and permission to deal in the Subscription Shares. Application will be made to the Stock Exchange to grant the listing of and permission to deal in the Subscription Shares. If these conditions are not fulfilled, the Subscription will not proceed.
Investors should exercise caution when dealing in the Shares.
Dealing in the Shares on the Stock Exchange was suspended at the request of the Company from 9:32 a.m. on Friday, 26th March, 2004 pending the issue of this announcement. Application has been made by the Company for the resumption in the dealing in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 29th March, 2004.

The Directors are pleased to announce the signing of the Placing Agreement and Subscription Agreement, both of which are dated 26th March, 2004 on the terms described in Sections A and B below.

A. PLACING OF 53,000,000 EXISTING SHARES

Parties to the Placing:	The Company, the Vendor and the Placing Agent
Agreement:	The Vendor is the controlling shareholder holding 74.30% of the issued share capital of the Company, the entire issued share capital of which is owned by Newcourt Trustees Limited 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. The Placing Agent is CLSA Limited, an Independent Third Party.
Number of Placing Shares:	53,000,000 Shares to be placed on a fully underwritten basis, representing approximately 6.32% of the existing issued share capital of the Company of 839,124,000 Shares and approximately 5.53% of the issued capital of the Company as enlarged by the issue of 120,000,000 new Shares under the Subscription.
Placing price:	HK\$6.745 per Placing Share. This price was agreed after arm’s length negotiations and represents (i) a discount of 5% to the closing price of HK\$7.10 per Share as quoted on the Stock Exchange on the Last Dealing Date; and (ii) a discount of approximately 6.06% to the average closing price of approximately HK\$7.18 per Share as quoted on the Stock Exchange for the 5 trading days of the Shares immediately before and including the Last Dealing Date.
Placees:	The Placing Shares will be placed to not less than six institutional investors. Such institutional investors and their beneficial owners should be Independent Third Parties. The Board does not expect any placee will become a substantial shareholder of the Company (as defined in the Listing Rules) as a result of the Placing.
Termination:	<p>The Placing is subject to termination on the occurrence of certain events prior to 10:00 a.m. on the date of resumption of trading of shares of the Company, which is expected to be on Monday, 29th March, 2004, including:</p> <div><div>(a) any material breach of the warranties given by under the Placing Agreement;</div><div>(b) any change in national or international financial, political or economic conditions or taxation or exchange controls since the date of the Placing Agreement as would be likely prejudice materially the consummation of the Placing in the reasonable opinion of the Placing Agent; and</div><div>(c) any adverse change in the financial position of the Company which in the reasonable opinion of the Placing Agent is material in the context of the Placing.</div><p>The Directors are not aware of the occurrence of any of such events as at the date of this announcement.</p><p>If the Placing is terminated, an announcement will be made by the Company.</p></div>
Completion:	Apart from the Placing Agent’s termination right referred to above, the Placing is unconditional and completion of the Placing is expected to take place on Wednesday, 31st March, 2004.
Undertakings:	<p>As part of the Placing:</p> <div><div>(a) the Vendor has undertaken to the Placing Agent that (except for the sale of the Placing Shares) for the period of six months from the completion of the Placing, it will not sell, transfer, grant options over or otherwise dispose of any of its Shares or any interests therein unless prior written consent of the Placing Agent shall have been obtained; and</div></div>

(b)	the Company agrees that it will not and the Vendor undertakes that none of the Group will issue or agree to allot or issue any Shares or grant any options over securities of the Company (other than options granted under the Company’s share option schemes) or repurchase any securities of the Company for a period of six months from the completion of the Placing unless prior written consent of the Placing Agent shall have been obtained.
B. SUBSCRIPTION OF 120,000,000 NEW SHARES	
Parties to the Subscription:	The Company and the Vendor
Subscriber:	The Vendor.
Number of Subscription Shares:	The Company will issue 120,000,000 new Shares to the Vendor representing approximately 14.30% of the existing issued share capital of the Company and approximately 12.51% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares under the Subscription.
Subscription Price:	HK\$6.745 per Subscription Share. Subject to the Subscription being completed, the Company will bear the costs and expenses in connection with the Placing and the Subscription which are estimated to be approximately HK\$5 million. Any interest earned by the Vendor on the moneys raised by the Placing, between the date of completion of the Placing and the date of completion of the Subscription, will be paid to the Company. On or before 31st March, 2004, the subscription price for all of the Subscription Shares (less Placing Agent fees for the Placing) will be remitted to the Company. If the Subscription does not proceed to Completion, the aforesaid monies will be returned, in full, to the Vendor.
General Mandate:	The Subscription Shares will be issued pursuant to the general mandate to allot, issue and deal with Shares granted to the Directors by a resolution of its shareholder passed on 11th September, 2003. The general mandate has not been utilised prior to entering into the Placing Agreement and Subscription Agreement. The Company has not purchased any shares during the 30 consecutive trading days ending on and including the Last Dealing Date.
Ranking of Subscription Shares:	The Subscription Shares will rank equally with Shares in issue at the time of issue and allotment of the Subscription Shares.
Use of Proceeds:	The net proceeds from the Subscription, of approximately HK\$804 million, will be earmarked as to approximately HK\$500 million for the acquisition of paper machine VII and as to the balance as working capital. Further information regarding the Company’s discussions in respect of a possible acquisition of paper machine are set out in section D below.
Conditions:	<p>The Subscription is conditional upon:</p> <div><div>(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Subscription Shares; and</div><div>(b) completion of the Placing.</div><p>Application will be made to the Stock Exchange to grant the listing of and permission to deal in the Subscription Shares. If the conditions to the Subscription are not fulfilled, the Subscription will not proceed.</p></div>
Completion:	Under the Listing Rules, the Subscription must be completed within 14 days from the date of the Placing and Subscription Agreement, that is, on or before 8th April, 2004 (or such later date as the Company and the Vendor may agree, such agreement not to be unreasonably withheld or delayed and subject to compliance in full with the connected transaction requirements of the Listing Rules), failing which the Subscription shall cease and terminate. In accordance with Rule 14.24(6)(a) of the Rules Governing the Listing of Securities on the Stock Exchange, the Subscription will be treated as a connected transaction if it is not completed on or before 8th April, 2004.

C. EFFECT OF THE PLACING AND SUBSCRIPTION

The shareholding of the Vendor in the Company immediately before completion of the Placing, immediately after completion of the Placing but before completion of the Subscription, and immediately after completion of both the Placing and the Subscription are and will be as follows:

	No. of Shares in the Company held by the Vendor (Note 1)	Shareholding in the Company held by the Vendor (Note 1)	Shareholding in the Company held by the public
Immediately before the Placing and the Subscription	623,500,000	74.30	25.70
Immediately after the Placing but before the Subscription	570,500,000	67.99	32.01
Immediately after the Placing and the Subscription	690,500,000	71.99	28.01

Notes:

1. The above figures are calculated based on a total 839,124,000 Shares in issue. All 623,500,000 Shares are beneficially owned by the Vendor. The above figures assume that other than the Subscription Shares, no new Shares are issued or no existing Shares are purchased by the Company and other than the Placing Shares, no Shares are sold or purchased by the Vendor, Newcourt Trustees Limited or its associates, in each case after the date of this announcement up to the date of the completion of the Subscription.

D. REASON FOR, BENEFITS OF, AND USE OF PROCEEDS FROM THE PLACING AND SUBSCRIPTION

The Group is a large-scale paper manufacturer and specialises in production of linerboard and corrugating medium. Upon its listing on the Stock Exchange on 26th September, 2003, the Group operated four paper machines I to IV with annual production capacity of approximately 650,000 MT per year.

Since then, the Group has acquired, installed and commenced operations of paper machine V producing approximately 200,000 MT linerboard per year. The production capacity of paper machines I to V has been fully utilised.

Paper machine VI producing corrugating medium is being installed and is expected to commence operations on or before August 2004, as stated in the Prospectus. The Group now plans to purchase paper machine VII producing linerboard which has an annual production capacity of approximately 400,000 MT. With the operation of paper machine VII, the aggregate annual production capacity of the Group's seven paper machines will be approximately 1,200,000 MT of linerboard and 400,000 MT of corrugating medium. Commencement of operations of paper machine VII is expected to be in the second half of 2005. As at the date of this announcement, the Group's plans to commence operations of paper machine VIII in 2006 (as mentioned in the Prospectus) remain unchanged.

The actual net proceeds received from the initial listing of the company in 2003 including the over-allotment option have been fully utilised for the purposes stated in the Prospectus.

The Group expects to sign a purchase agreement for the main unit of paper machine VII in April 2004 and expects this machine to be installed and commence operations in the second half of 2005. The Group estimates that the acquisition cost of the main unit paper machine VII and costs of ancillary and support equipment such as preparation unit, pumps and cranes will be approximately HK\$500 million. These costs are expected to be incurred over the next 18 months and any proceeds from the Subscription which are not immediately applied towards the purchase of paper machine VII will be employed as general working capital (including the repayment of short term revolving facilities). Save for the paper machines and projects already disclosed in the Prospectus and this announcement, the Company does not currently have any other specific projects in respect of which proceeds from the Subscription will be used. In view of the current market conditions, the Directors consider that the Placing and Subscription represent a good opportunity to raise capital and strengthen its cash resources for acquiring of paper machine VII and further expand its production capacity to meet increasing demand.

E. GENERAL

Dealings in the Shares on the Stock Exchange was suspended at the request of the Company from 9:32 a.m. on Friday, 26th March, 2004 pending the issue of this announcement. Application has been made by the Company for the resumption in the dealing in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 29th March 2004.

F. DEFINITIONS

The following defined terms are used in this announcement:

"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Company"	Lee & Man Paper Manufacturing
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Independent Third Party"	an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
"Last Dealing Date"	25th March, 2004, being the last day on which the Shares could be traded on the Stock Exchange prior to the suspension of dealings in Shares pending the issue of this announcement
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MT"	metric tonnes
"Placing"	the placing of the Placing Shares pursuant to the Placing Agreement
"Placing Agent"	CLSA Limited, an Independent Third Party
"Placing Agreement"	the placing agreement between the Vendor, the Company and the Placing Agent dated 26th March, 2004
"Placing Shares"	the 53,000,000 Shares to be placed by the Placing Agent pursuant to the Placing Agreement
"Prospectus"	the Company's prospectus dated 16 September, 2003
"Shares"	ordinary shares of HK\$0.10 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the Subscription Shares pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement between the Vendor and the Company dated 26th March, 2004
"Subscription Shares"	the 120,000,000 Shares to be subscribed for by the Vendor pursuant to the Subscription Agreement

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

Hong Kong, 26th March, 2004

* For identification purpose only