

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



理文造紙有限公司\*

*Lee & Man Paper Manufacturing Limited*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2314)**

**CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee**



A letter from the Independent Board Committee is set out on page 11 of this circular and a letter from CIMB-GK Securities (HK) Limited, the independent financial adviser to the Independent Board Committee is set out on pages 12 to 17 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 5th Floor, Liven House, 61–63 King Yip Street, Kwun Tong, Kowloon on 6 October 2006 at 9:30 a.m. (the “Extraordinary General Meeting”) is set out on pages 23 to 24 of this circular.

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular. If you do not intend to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen’s Road East, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjournment of it, if you so wish.

\* for identification purposes only

# CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	3
<b>Letter from the Independent Board Committee</b> .....	11
<b>Letter from CIMB-GK Securities (HK) Limited</b> .....	12
<b>Appendix – General information</b> .....	18
<b>Notice of EGM</b> .....	23

## DEFINITIONS

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

“Announcement”	the announcement dated 25 August 2006 issued by the Company;
“Annual Caps”	the maximum annual consideration to be supplied to Lee & Man Manufacturing for each of the three financial years ending 31 March 2007, 2008 and 2009 details of which are set out in this Circular;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Continuing Connected Transactions”	the continuing connected transactions between the Group and Lee & Man Manufacturing, which is wholly owned by Mr Lee Wan Keung Patrick, which constitute continuing connected transactions of the Company which require reporting, announcement and Independent Shareholders’ approval;
“Director(s)”	the director(s) of the Company;
“Dongguan Lee & Man”	Dongguan Lee & Man Paper Factory Co., Ltd., a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the New Business Services Agreements, the transactions contemplated thereunder and each of the Annual Caps;
“Existing Waiver”	the waiver granted by the Stock Exchange in relation to certain existing continuing connected transactions of the Group which expired on 31 March 2006;
“Group”	the Company and its subsidiaries;
“IFA”	CIMB-GK Securities (HK) Limited, the independent financial advisers of the Company;

## DEFINITIONS

“Independent Board Committee”	a board committee comprising of Mr Wong Kai Tung Tony, Mr Heng Kwoong Seng and Ms Law Kar Shui Elizabeth the independent non-executive to make recommendations to the Independent Shareholders in respect of the Annual Caps;
“Independent Shareholders”	Shareholders other than Mr Lee Wan Keung Patrick and his associates;
“Latest Practicable Date”	14 September 2006;
“Lee & Man Manufacturing”	Lee & Man Industrial Manufacturing Limited;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Business Services Agreements”	the New Finished Goods Agreement and the New Steam Agreement;
“New Finished Goods Agreement”	the legally binding supply agreement dated 25 August 2006 entered into between Dongguan Lee & Man and Lee & Man Manufacturing pursuant to which Dongguan Lee & Man supplies finished goods (such as test liners and corrugated medium paper) to Lee & Man Manufacturing;
“New Steam Agreement”	the legally binding agreement dated 25 August 2006 entered into between Dongguan Lee & Man, Lee & Man Manufacturing pursuant to which Dongguan Lee & Man supplies steam to Lee & Man Manufacturing;
“PRC”	the People’s Republic of China;
“Shareholder(s)”	holder(s) of shares of the Company; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

## 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 Kwoong 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 Office in Hong Kong:*

5th Floor, Liven House

61 – 63 King Yip Street

Kwun Tong

Kowloon

Hong Kong

18 September 2006

*To Shareholders of the Company*

Dear Sir or Madam:

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

Reference is made to the Announcement, relating to certain business relationships with Lee & Man Manufacturing, which constitute Continuing Connected Transactions of the Company. Certain of such business relationships have taken place since the Company's listing on the Stock Exchange in the year 2003 and the Group has obtained the Existing Waiver in respect of such Continuing Connected Transactions which exempts the Company from strict compliance with disclosure and where applicable, independent shareholders' approval requirements under the Listing Rules. The Existing Waiver expired on 31 March 2006. As the continuing connected transactions are essential for the continued operation and growth of the business of the Group, it was impractical for the Group to operate its business effectively if the Company is required to make disclosures and where necessary, to obtain Independent Shareholders' approval, before entering into such transactions. Accordingly, the Group obtained the Existing Waiver dated 26 September 2003 in respect

\* for identification purposes only

## LETTER FROM THE BOARD

of certain continuing connected transactions of the Group. The Existing Waiver exempts the Group from full compliance with the Listing Rules in respect of such Continuing Connected Transactions. The Existing Waiver expired on 31 March 2006. The Directors intend that such business relationships continue and accordingly, the Company has entered into the New Business Services Agreements for such Continuing Connected Transactions. The New Business Services Agreements include the New Finished Goods Agreement and the New Steam Agreement. Set out in this Circular is further information in relation to the Continuing Connected Transactions.

The New Business Services Agreements include the New Finished Goods Agreement and the New Steam Agreement.

As both the New Finished Goods Agreement and the New Steam Agreement involve the supply of finished goods or steam to Lee & Man Manufacturing, a connected person, their Annual Caps for each year are aggregated for the purposes of considering whether the transactions contemplated thereunder require independent shareholders' approval. As the Annual Caps for the New Finished Goods Agreement and the New Steam Agreement in aggregate is equal to more than 2.5% and is less than 25% of the applicable percentage ratios in respect of the Company and is greater than HK\$10,000,000, the New Finished Goods Agreement and the New Steam Agreement and their respective Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Lee & Man Manufacturing is wholly owned by Mr Lee Wan Keung Patrick the chairman of the Company and a Director. Mr Lee Wan Keung Patrick and his associates will abstain from voting at the EGM of the Company to be convened for this purpose. The votes of the Independent Shareholders in the EGM will be taken by poll.

The purpose of this circular is i) to provide you with further information in relation to the Continuing Connected Transactions; ii) to set out the opinions and recommendations of the Independent Board Committee and IFA; and iii) to give you notice of the EGM at which the resolutions set out therein will be proposed. The EGM will be held on 6 October 2006 for the purpose of, among others, obtaining the approval from the Independent Shareholders in respect of the Continuing Connected Transactions by way of poll.

## LETTER FROM THE BOARD

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS WHICH REQUIRE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL

Set out below is a summary of the Continuing Connected Transactions:

*Transactions with Connected Persons under the New Finished Goods Agreements and the New Steam Agreement*

#### **Type of Transaction**

#### **Nature of Transaction**

##### *New Finished Goods Agreement*

Supply of finished goods by Dongguan Lee & Man to Lee & Man Manufacturing

The New Finished Goods Agreement dated 25 August 2006 is for a term of three years commencing from 1 April 2006 till 31 March 2009 pursuant to which Dongguan Lee & Man from time to time supplies finished goods such as test liners and corrugated medium paper to Lee & Man Manufacturing for manufacturing corrugated paper packaging products in the PRC.

##### *New Steam Agreement*

Supply of steam by Dongguan Lee & Man to Lee & Man Manufacturing

Under the New Steam Agreement dated 25 August 2006 Dongguan Lee & Man will supply steam to Lee & Man Manufacturing at a monthly fee of HK\$130,000, subject to adjustments (taking into account any changes in actual usage of steam) as may be mutually agreed between the parties. The term of the New Steam Agreement is for three years commencing on 1 April 2006 till 31 March 2009.

To comply with the requirements of the Listing Rules, Dongguan Lee & Man has entered into the New Finished Goods Agreement and the New Steam Agreement.

Under the New Finished Goods Agreement, the price to be charged by the Group in respect of the supply of finished goods shall not be lower than the market price charged to independent third parties under normal commercial terms for similar products (where possible, in the same region). If there is no such market price, the price to be charged by the Group shall not be lower than the price charged against other third parties for similar services or products. The New Finished Goods Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

## LETTER FROM THE BOARD

Under the New Steam Agreement, the steam fee charges were based on the estimated monthly coal consumption and overheads of the Group. The steam fee charges will be paid by cash by Lee & Man Manufacturing. The New Steam Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

The aggregate consideration received by the Group from Lee & Man Manufacturing for finished goods or steam supplied to Lee & Man Manufacturing for each of the financial years ended 31 March 2004, 2005 and 2006 were as follows:

	Type of Transaction	Amount (HK\$)		
		2004	2005	2006
1.	<b>Supply of finished good</b>	79,767,000	84,229,000	122,018,000
	Annual cap in respect of supply of finished goods under the Existing Waiver	105,000,000	120,000,000	138,000,000
2.	<b>Supply of steam</b>	1,560,000	1,560,000	1,560,000
	Annual cap in respect of supply of steam under the Existing Waiver	<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>

*Note:* Under the Existing Waiver, the annual cap in relation to the supply of steam is the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the relevant year-end.

The revenue ratio in respect of the transactions which fall under the New Finished Goods Agreement and the New Steam Agreement in aggregate has exceeded 0.1% on April 2006 and in accordance with Rule 14A.34, the reporting and announcement requirements under Rules 14A.45 to 14A.47 has been triggered. A transaction in respect of the provision of finished goods involves the making/receiving of an order for the finished goods, providing a quotation and then invoicing the price for such order, delivery, clearance with the relevant custom requirements and confirmation of acceptance. This process (including the recording of the transaction in the accounts of the Company) normally takes approximately 2 months. Upon the expiry of the Existing Waiver, the Company required the full 2006 transaction figures as well as its production figures to assist with the projections on the output and allocation the Company can make in relation to its provision of finished goods. In addition, the Group also needs additional time to finalise its projections taking into account of the recent expansion of the Company with its increase in production lines. Accordingly, the Company did not make any announcement until the Announcement (when the projections, the New Finished Goods Agreement and the New Steam Agreement were finalised). From the expiry of the Existing Waiver on 31 March 2006 and up to the date of this announcement, the Company confirms that the percentage ratios in respect of the aggregate value of the transactions which fall under the New Finished Goods Agreement and the New steam Agreement were less than 2.5%.

## LETTER FROM THE BOARD

### THE ANNUAL CAPS

The Company proposes that the maximum aggregate annual consideration to be received or paid by the Group in respect of New Finished Goods Agreement and the New Steam Agreement set out above will not exceed the respective cap amounts (in respect of which Independent Shareholders approval is proposed to be sought at the EGM) as shown in the table below for each of the three financial years ending 31 March 2007, 2008 and 2009:

Type of Transaction	Amount (HK\$)		
	Year ending 31 March 2007	Year ending 31 March 2008	Year ending 31 March 2009
Supply of finished goods by Dongguan Lee & Man to Lee & Man Manufacturing <i>(Note 1)</i>	166 million	184 million	195 million
Supply of steam by Dongguan Lee & Man to Lee & Man Manufacturing <i>(Note 2)</i>	1,560,000	1,560,000	1,560,000

*Note 1:* The relevant caps have been determined by reference to (i) the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2004, 2005 and 2006; (ii) the plans and requirements of Lee & Man Manufacturing and the ability of the Group to meet the requirements of Lee & Man Manufacturing given the expansion of the scale of production of the Group (as described in the announcement of the Company dated 30 March 2006, the Group has acquired additional paper machines which is expected to increase the Group's annual capacity from 1,600,000 metric tons to approximately 3,030,000 metric tons). The average metric tons of finished goods supplied by the Group to Lee & Man Manufacturing amounted to approximately 27,363 and 40,506, representing approximately 54% and 67% of the total amount of finished goods required by Lee & Man Manufacturing for the two years ended 31 March 2005 and 2006 respectively. Based on the information provided to the Company by Lee and Man Manufacturing, it is expected that the sourcing of finished goods by Lee & Man Manufacturing from the Group will continue to increase and is estimated to amount to approximately 62,000 metric tons, 69,000 metric tons and 73,000 metric tons for the three years ending 31 March 2007, 2008 and 2009 respectively. As the production capacity of the Group increases, the Group will be able to produce more to meet the requirements of its customers. Given that the prices to be paid to the Group by Lee & Man Manufacturing are not lower than the market price charged to independent third parties under normal commercial terms for similar products, the increase in the Annual Caps in respect of the supply of finished goods will allow the Group to further utilise its production facilities whilst obtaining a return for such supply; and (iii) the increase in costs of the raw materials required for the finished goods.

*Note 2:* The relevant caps have been determined by reference to the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2004, 2005 and 2006.

## LETTER FROM THE BOARD

### LISTING RULES COMPLIANCE IN RESPECT OF THE CONTINUING CONNECTED TRANSACTIONS REQUIRING SHAREHOLDERS' APPROVAL

As certain of the percentage ratios in respect of the above Continuing Connected Transactions Requiring Shareholders Approval on an annual and aggregated basis exceed 2.5%, the above Continuing Connected Transactions will constitute "non-exempt continuing connected transactions" of the Company under the Listing Rules requiring the approval of Independent Shareholders. Accordingly, Independent Shareholders' approval are proposed to be sought in respect of the Continuing Connected Transactions subject to the following conditions:

- (A) the Continuing Connected Transactions will be:
  - (i) entered into in the ordinary and usual course of business of the Company;
  - (ii) conducted on normal commercial terms or, if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available to or from independent third parties as appropriate; and
  - (iii) entered into in accordance with the relevant terms and conditions governing them which are fair and reasonable so far as the Shareholders are concerned and in the interest of the Company and its shareholders as a whole;
- (B) the value of the Continuing Connected Transactions shall not exceed the caps set out above for each of the three years ending 31 March 2007, 31 March 2008 and 31 March 2009 respectively;
- (C) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of any of the Continuing Connected Transactions exceeds the relevant caps, or that there are any material amendment to the terms of the agreements in respect of the Continuing Connected Transactions.

The Company will comply with the relevant continuing obligations required under the Listing Rules in respect of its continuing connected transactions.

### REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is a large-scale paper manufacturer and specializes in the production of linerboard and corrugating medium. The principal business of Lee & Man Manufacturing is in the manufacturing of corrugated paper packaging products in the PRC. The Continuing Connected Transactions have taken place since the Company's listing on the Stock Exchange in the year 2003 and are essential for the continued operation and growth of the business of the Group. The Group is also able to provide steam and finished goods to Lee & Man Manufacturing who is not in the same line of business or who do not operate in the areas in which the Group has its core operations.

## LETTER FROM THE BOARD

The New Business Services Agreements have been negotiated and agreed on an arms' length basis between the Group and Lee & Man Manufacturing based on normal commercial terms. The terms of the New Business Services Agreements (in terms of pricing policies and payment policies) are substantially the same as the terms of the transactions under the Existing Waiver. The Directors (including the independent non-executive Directors who have formed a preliminary view) consider the terms of the New Finished Goods Agreement and New Steam Agreement to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. The formal advice and recommendation to the shareholders by the independent non-executive Directors will be included in the circular to the Shareholders after they have received advice from the Independent Financial Adviser.

### **PROCEDURES FOR DEMANDING A POLL AT THE EGM**

Where a resolution is put to the vote at the EGM, the resolution shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the EGM; or
- (b) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the EGM; or
- (c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the EGM; or
- (d) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the EGM being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

## LETTER FROM THE BOARD

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 11 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the Continuing Connected Transactions to be subject to the New Caps.

The advice of the IFA to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the New Caps are fair and reasonable and in the interest of the Company and its Shareholders as a whole are set out on pages 12 to 17 of this circular.

### FURTHER INFORMATION

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

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



理文造紙有限公司\*

*Lee & Man Paper Manufacturing Limited*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2314)**

18 September 2006

*To the Independent Shareholders*

Dear Sir or Madam

### CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Lee & Man Paper Manufacturing Limited in respect of the resolution to approve the Continuing Connected Transactions subject to the New Caps, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of the IFA in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Continuing Connected Transactions and the New Caps are fair and reasonable and in the interest of the Company and its Shareholders as a whole, as set out in the “Letter from CIMB-GK Securities (HK) Limited” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the IFA in relation thereto as stated in its letter, we consider the terms of the Continuing Connected Transactions and the New Caps to be fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Continuing Connected Transactions.

Yours faithfully

**Independent Board Committee**

**Wong Kai Tung Tony**

**Heng Kwoo Seng**

**Law Kar Shui Elizabeth**

*Independent Non-executive Directors*

\* for identification purposes only

## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, prepared for the purpose of incorporation into this circular.*



**CIMB-GK Securities (HK) Limited**

25/F, Central Tower  
28 Queen's Road Central  
Hong Kong

18 September 2006

*To the Independent Board Committee and the Independent Shareholders of  
Lee & Man Paper Manufacturing Limited*

Dear Sirs

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to the continuing connected transactions to be entered into between the Group and Lee & Man Manufacturing under the New Finished Goods Agreement and the New Steam Agreement (the "Continuing Connected Transactions"), details of which are contained in a circular (the "Circular") to the Shareholders dated 18 September 2006, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information and documents and have taken reasonable steps as required under Rule 13.80, including the notes thereto of the Listing Rules to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Continuing Connected Transactions in order to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or Lee & Man Manufacturing or any of its respective subsidiaries or associates.

# LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

## PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in respect of the Continuing Connected Transactions, we have considered the following principal factors and reasons:

### **Background and rationale**

The Group is a large-scale paper manufacturer which specializes in the production of linerboard and corrugating medium. The Continuing Connected Transactions are principally related to the supply of finished goods (the New Finished Goods Agreement) and the supply of steam (the New Steam Agreement) to Lee & Man Manufacturing, which the Group has been supplying to Lee & Man Manufacturing finished goods and steam in its ordinary and usual course of business since the Company's listing on the Stock Exchange in 2003. The Existing Waiver which exempts the Company from strict compliance with the disclosure and independent shareholders' approval requirements expired on 31 March 2006.

Under the New Finished Goods Agreement and the New Steam Agreement both dated 25 August 2006, Dongguan Lee & Man, a wholly-owned subsidiary of the Company, will from time to time supply finished goods such as test liners and corrugated medium paper and steam, respectively to Lee & Man Manufacturing for its manufacturing of corrugated paper packaging products in the PRC, for a term of three years commencing from 1 April 2006 till 31 March 2009.

Given the above and the fact that (i) the nature of the Continuing Connected Transactions relates to the Group's principal business and operations; and (ii) the Continuing Connected Transactions will be based on normal commercial terms or no less favourable terms than those offered to independent third parties as elaborated below, we consider the continuation of the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole.

### **Basis of determination**

In assessing the fairness of the bases of the New Finished Goods Agreement and the New Steam Agreement, we have reviewed (i) the terms of the Continuing Connected Transactions contemplated under the New Finished Goods Agreement and the New Steam Agreement; and (ii) the confirmations from the auditors of the Company to the Board that the historical continuing connected transactions for the three years ended 31 March 2006 have been entered into in accordance with the terms of the relevant agreements. We have also discussed the bases of the Continuing Connected Transactions to be conducted under the New Finished Goods Agreement and the New Steam Agreement with the senior management of the Company.

## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

### *New Finished Goods Agreement*

Under the New Finished Goods Agreement, the price to be charged by the Group in respect of the supply of finished goods shall not be lower than the market price charged to independent third parties under normal commercial terms for similar products (where possible, in the same region). If there is no such market price, the price to be charged by the Group shall not be lower than the price charged against other third parties for similar services or products. We have reviewed sample invoices issued by the Group to Lee & Man Manufacturing and to other independent third parties and noted that the terms offered by the Group to Lee & Man Manufacturing are comparable to those offered to other independent third parties.

### *New Steam Agreement*

Under the New Steam Agreement, the Group will charge Lee & Man Manufacturing for the supply of steam a monthly fee of HK\$130,000, subject to adjustments (taking into account any changes in actual usage of steam) as may be mutually agreed between the parties. The renewal caps for the steam fee charges were based on the estimated monthly coal consumption plus overhead costs of the Group required for the supply of steam to Lee & Man Manufacturing. Such caps are equivalent to the historical caps set under the Existing Waiver. As advised by the Company, steam is needed in the production process of the Group's products. Save for Lee & Man Manufacturing, the Company has no intention to supply steam to other third parties and it is unlikely to have other demand of steam produced by the Group. Given the above and the amounts involved are immaterial to the Group, we consider such charges to Lee & Man Manufacturing based on costs incurred by the Group are fair and reasonable.

### *Views*

Based on the above, we consider that the bases of the New Finished Goods Agreement and the New Steam Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **Annual Caps**

The following table summarized the respective historical amount of the Continuing Connected Transactions for the three years ended 31 March 2006 as extracted from the "Letter from the Board" of the Circular:

<b>Type of continuing connected transactions</b>	<b>For the year ended 31 March</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Supply of finished goods	79,767,000	84,229,000	122,018,000
Supply of steam	1,560,000	1,560,000	1,560,000

## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

The following table sets out the respective annual caps of the Continuing Connected Transactions under the New Finished Goods Agreement and the New Steam Agreement as described above for the three financial years ending 31 March 2009 (“New Caps”):

<b>Type of continuing connected transactions</b>	<b>For the year ending 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Supply of finished goods	166,000,000	184,000,000	195,000,000
Supply of steam	1,560,000	1,560,000	1,560,000

### *New Finished Goods Agreement*

We note that the New Caps of the Continuing Connected Transactions under the New Finished Goods Agreement have been determined by the Directors with reference to the following factors:

- (i) the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2006;
- (ii) the plans and requirements of Lee & Man Manufacturing and the ability of the Group to meet the requirements of Lee & Man Manufacturing given the expansion of the scale of production of the Group; and
- (iii) the costs of the raw materials required for the production of the finished goods.

We have discussed with the management of the Company on the principal bases underlying the above factors in the determination of the New Caps under the New Finished Goods Agreement. We understand from the Directors that in determining the New Caps, they have considered (i) the increase in the production capacity of the Group as a result of the Group’s acquisition of additional machineries; (ii) the plans by Lee & Man Manufacturing to increase sourcing of corrugating medium paper and linerboard from the Group; and (iii) the estimated increase in costs of raw materials required for the production of the finished goods.

As described in the announcement of the Company dated 30 March 2006, the Group has acquired additional paper machines which are expected to increase the Group’s annual production capacity from 1,600,000 metric tons to approximately 3,030,000 metric tons and will, as a result, enable the Group to produce more to meet customers’ demand. We have been advised by the Directors that the average metric tons of finished goods supplied by the Group to Lee & Man Manufacturing amounted to approximately 27,363 and 40,506, representing approximately 54% and

## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

67% of the total amount of finished goods required by Lee & Man Manufacturing for the two years ended 31 March 2005 and 2006 respectively. As advised by the management of the Company, based on their discussions with Lee and Man Manufacturing, it is expected that the sourcing of finished goods by Lee & Man Manufacturing from the Group will continue to increase and is estimated to amount to approximately 62,000 metric tons, 69,000 metric tons and 73,000 metric tons for the three years ending 31 March 2007, 2008 and 2009 respectively. Furthermore, as noted from the information provided by the Company and information available in the public domain principally from the website of China Paper Association, the costs of the raw materials required for the production of the finished goods, namely, old corrugated cardboard and containers, have been on an upward trend since 2001 and remained stable in recent years. With the estimated increase in the sourcing of corrugated medium paper and linerboard by Lee & Man Manufacturing from the Group and the stable price trend in raw materials required for the production of the finished goods, we consider the increase in New Caps reasonable. Given that the prices to be charged by the Group shall not be lower than the price charged against independent third parties under normal commercial terms for similar products, the increase in New Caps in respect of the supply of finished goods will allow the Group to further utilise its production facilities whilst obtaining a comparable return on such supply.

### *New Steam Agreement*

We have discussed with the management of the Company on the principal bases underlying the factors considered in the determination of the New Caps under the New Steam Agreement. We understand from the Directors that the New Caps have been determined with reference to the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2006.

We note that under the New Steam Agreement, the Group will charge Lee & Man Manufacturing for the supply of steam the same rate as compared to historical transactions. As advised by the Company, the steam fee charges were based on the estimated monthly coal consumption and overheads of the Group required for the supply of steam to Lee & Man Manufacturing. We have reviewed the calculation prepared by the Company on the estimated costs of the Group for the supply of steam to Lee & Man Manufacturing and noted that major relevant costs have been included in such calculation. We have been advised by the Directors that without any major changes in the operation of Lee & Man Manufacturing, it is expected that the estimated monthly coal consumption and overheads attributable to the supply of steam to Lee & Man Manufacturing will remain stable.

## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

### *Views*

Based on various factors described above, we regard those factors and bases as well as the New Caps in relation to the New Finished Goods Agreement and New Steam Agreement to be fair and reasonable so far as the Company and the Independent Shareholders are concerned. However, as the New Caps relate to future events and are based on assumptions which may or may not remain valid for the entire period up to 31 March 2009, consequently, we express no opinion as to how closely the actual sale or purchase volume of the Continuing Connected Transactions corresponds with the New Caps.

### **RECOMMENDATION**

Having considered the principal factors and reasons referred to the above, we consider that the Continuing Connected Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and that the terms thereof as well as the New Caps are fair and reasonable so far as the Company and Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Finished Goods Agreement, the New Steam Agreement and the New Caps.

Yours faithfully

For and on behalf of

**CIMB-GK Securities (HK) LIMITED**

**Alex Lau**

*Executive Vice President*

**Flavia Hung**

*Senior Vice President*

## 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 Share Option Scheme	Percentage of the issued share capital of the Company
Lee Wan Keung Patrick	Held by controlled corporation ( <i>Note</i> )	718,718,000	–	73.86%
Lee Man Chun Raymond	Held by controlled corporation ( <i>Note</i> )	718,718,000	–	73.86%
Lee Man Bun	Held by controlled corporation ( <i>Note</i> )	718,718,000	–	73.86%
Li King Wai Ross	Beneficial owner	–	600,000	0.06%
Tan Siak Him Alexander	Beneficial owner	450,000	–	0.05%
Wong Kai Tung Tony	Beneficial owner	400,000	–	0.04%
Heng Kwoo Seng	Beneficial owner	1,578,000	–	0.16%

*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, M. Lee Man Chun Raymond and M. 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	718,718,000	73.86%
Trustcorp	Held by controlled corporation	718,718,000	73.86%
Lee Wong Wai Kuen	Held by spouse ( <i>Note</i> )	718,718,000	73.86%

*Note:* Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 718,718,000 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 2006	One year	Nil
Wong Kai Tung Tony	11 September 2006	One year	80,000
Heng Kwoo Seng	11 September 2006	One year	120,000
Law Kar Shui Elizabeth	1 January 2006	One year	Nil

## 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. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, being the date up to which the latest published audited financial statements of the Group were made up.

**7. EXPERT**

- (a) The following is the qualification of CIMB-GK Securities (HK) Limited, which has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
CIMB-GK Securities (HK) Limited	a corporation licensed under the SFO for carrying out type 1 (Dealing in Securities), type 4 (Advising on Securities), and type 6 (Advising on Corporate Finance) regulated activities

- (b) As at the Latest Practicable Date, CIMB-GK Securities (HK) Limited did not have any shareholding, direct or indirect, in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 March 2006, being the date up to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.
- (c) CIMB-GK Securities (HK) Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

**8. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

- (a) None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2006, being the date up to which the latest published audited financial statements of the Group were made.
- (b) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

**9. 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 office 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.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at Richards Butler International Law Firm, 20th Floor, Alexandra House, 16–20 Chater Road, Hong Kong, from 18 September 2006 for a period of 14 days:

- (a) this circular;
- (b) the Articles of Association of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (d) the letter from CIMB-GK Securities (HK) Limited, the text of which is set out on pages 12 to 17 of this circular;
- (e) the written consent of CIMB-GK Securities (HK) Limited referred to in the section headed “Expert” in this Appendix; and
- (f) the New Business Services Agreements.

## NOTICE OF EXTRAORDINARY GENERAL MEETING



理文造紙有限公司\*

**Lee & Man Paper Manufacturing Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2314)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Lee & Man Paper Manufacturing Limited (the "Company") will be held at 5th Floor, Liven House, 61 – 63 King Yip Street, Kwun Tong, Kowloon, Hong Kong on 6 October 2006 at 9.30 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

### ORDINARY RESOLUTION

**"THAT,**

- (a) the transactions contemplated under the new steam agreement (the "New Steam Agreement") dated 25 August 2006 between Lee & Man Industrial Manufacturing Limited and Dongguan Lee & Man Paper Factory Co., Ltd. in relation to the provision of steam, including, without limitation, to the caps of the transactions under the New Steam Agreement (the details of which are set out in the circular of the Company dated 18 September 2006) be and are hereby approved;
- (b) the transactions contemplated under the new finished goods supply agreement (the "New Finished Goods Agreement") dated 25 August 2006 between Lee & Man Industrial Manufacturing Limited and Dongguan Lee & Man Paper Factory Co., Ltd. in relation to the supply of finished goods, including, without limitation, to the caps of the transactions under the New Finished Goods Agreement (the details of which are set out in the circular of the Company dated 18 September 2006) be and are hereby approved;
- (c) that the directors of the Company be and are hereby authorised to take all actions and execute all documents which is deemed necessary, required and appropriate conditions, in order to implement and validate anything related to the New Steam Agreement and the New Finished Goods Agreement."

By order of the Board of  
**Lee & Man Paper Manufacturing Limited**  
**Cheung Kwok Keung**  
*Company Secretary*

18 September 2006

\* for identification purposes only

## NOTICE OF EXTRAORDINARY GENERAL MEETING

*Notes:*

1. Shareholders entitled to attend and vote at the extraordinary general meeting are entitled to appoint one or more persons (whether or not a shareholder of the Company) as their proxy to attend and vote on behalf of themselves. A proxy need not be a shareholder of the Company but must attend the meeting in person to represent a shareholder.
2. The form of proxy must be signed by a shareholder or an attorney duly authorized in writing by a shareholder or, in the case of a corporation must be either executed under its common seal or under the hand of an officer or attorney or other person duly authorized to sign the same.
3. In the case of joint holders of a share if more than one of such joint holder be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
4. In order to be valid, the form of proxy, together with the power of attorney (if any) or other authority under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the meeting.
5. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Extraordinary General Meeting if such shareholder so wishes. In such event, the instrument appointing a proxy shall be deemed to be revoked.

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