

**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.

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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)**

**CONTINUING CONNECTED TRANSACTIONS**

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



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

A letter from the Independent Board Committee is set out on page 10 of this circular and a letter from CIMB-GK Securities (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 15 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 5/F Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong on 25 April 2008 at 9.30 a.m. (the "Extraordinary General Meeting") is set out on pages 21 to 22 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> .....	4
<b>Letter from the Independent Board Committee</b> .....	10
<b>Letter from CIMB-GK Securities (HK) Limited</b> .....	11
<b>Appendix — General information</b> .....	16
<b>Notice of EGM</b> .....	21

## DEFINITIONS

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

“Agreements”	the Electricity Services Agreement and the Steam Services Agreement;
“Annual Caps”	the maximum annual consideration payable by Jiangsu Chemical to Jiangsu Paper under the Agreements, for each of 2009, 2010 and 2011;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Business Services Agreements”	a finished goods agreement and a steam agreement both dated 25 August 2006 entered into between Dongguan Lee & Man and Lee & Man Industrial, details of which are set out in the Company’s announcement dated 25 August 2006;
“CIMB-GK”	CIMB-GK Securities (HK) Ltd., a licensed corporation to conduct Type 1(dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“connected person”	has the meaning ascribed thereto in the Listing Rules;
“Controlling Shareholder”	Gold Best Holdings Limited, a Company incorporated in the British Virgin Islands and the controlling shareholder (as defined in the Listing Rules) of the Company;
“Directors”	the directors 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”	extraordinary general meeting to be convened by the Company for the approval of the transactions contemplated under the Agreements;
“Electricity Services Agreement”	the agreement dated 14 March 2008 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper generates electricity for Jiangsu Chemical;

## DEFINITIONS

“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a board committee comprising of Ms. Law Kar Shui Elizabeth, an independent non-executive Director of the Company, constituted to make recommendations to the Independent Shareholders in respect of the Agreements and the Annual Caps;
“Independent Shareholders”	Shareholders other than Mr. Lee Wan Keung and his associates;
“Jiangsu Chemical”	Jiangsu Lee & Man Chemical Limited, a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of Lee & Man Holding;
“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited, a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company;
“L&M Industries”	Lee & Man Industries Company Limited, a company incorporated in the British Virgin Islands;
“Last Practicable Date”	28 March 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Lee & Man Holding”	Lee & Man Holding Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Lee & Man Industrial”	Lee & Man Industrial Manufacturing Limited, a company indirectly wholly owned by a daughter of Mr. Lee Wan Keung, Patrick;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC. For information only, RMB have been translated into HK\$ as to RMB to HK\$1.09. No representation is made that such amounts were or could be exchanged at such rates;
“SFO”	Securities and Futures Ordinance of Hong Kong;
“Shareholder(s)”	holder(s) of shares of the Company;

## DEFINITIONS

“Shares”	ordinary shares of HK\$0.10 in the capital of the Company;
“Steam Services Agreement”	the agreement dated 14 March 2008 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper generates steam for Jiangsu Chemical;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Unit(s)”	unit(s) of electricity, i.e. kilowatt(s); 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

*Non-executive Director:*

Professor Poon Chung Kwong

*Independent Non-executive Directors:*

Wong Kai Tung Tony

Heng Kwo Seng

Law Kar Shui Elizabeth

*Registered Office*

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681

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

31 March 2008

*To Shareholders of the Company*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference is made to the announcement made by the Company dated 14 March 2008. On 14 March 2008 Jiangsu Paper, a wholly owned subsidiary of the Company, has entered into the Agreements with Jiangsu Chemical. Jiangsu, Chemical is a wholly owned subsidiary of Lee & Man Holding, an associate of Mr. Lee Wan Keung, Patrick, the chairman of the Company and a Director. Accordingly, the transactions under the Agreements constitute continuing connected transactions under the Listing Rules.

As the Annual Caps (which, for the purpose of the Listing Rules, will be aggregated with the annual caps under the Business Services Agreements) is 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 Agreements and the Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Accordingly, each of the Agreements is conditional upon the approval of the Independent Shareholders at the EGM.

\* for identification purposes only

## LETTER FROM THE BOARD

In addition, since Lee & Man Holding is a listed company on the Stock Exchange, the Agreements also constitute continuing connected transactions for Lee & Man Holding and are subject to approval by their independent shareholders.

The purpose of this circular is i) to provide you with further information in relation to the transactions contemplated under the Agreements; ii) to set out the opinions and recommendations of the Independent Board Committee and CIMB-GK; 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 Friday, 25 April 2008 for the purpose of, among others, obtaining the approval from the Independent Shareholders in respect of the subject transactions by way of poll.

### THE AGREEMENTS

A summary of the Agreements is set out below:

#### Date

14 March 2008

#### Parties

Jiangsu Paper and Jiangsu Chemical

#### Main Terms

##### Type of transaction

##### Nature of transaction

##### *Electricity Services Agreement*

Services to generate electricity  
by Jiangsu Paper for  
Jiangsu Chemical

Under the Electricity Services Agreement dated 14 March 2008, Jiangsu Paper will provide services to generate electricity for Jiangsu Chemical at a fee of RMB0.05 per Unit. The coal and other raw material for generating the electricity will be supplied by Jiangsu Chemical. Jiangsu Chemical will also be responsible for the electricity cables and other facilities to transmit electricity to its production facilities. The Electricity Services Agreement is for a term of two years and eight months commencing from 1 May 2008 till 31 December 2010.

##### *Steam Services Agreement*

Services to generate steam  
by Jiangsu Paper for  
Jiangsu Chemical

Under the Steam Services Agreement dated 14 March 2008, Jiangsu Paper will provide services to generate steam for Jiangsu Chemical at a charge of RMB90.00 per ton. The coal for generating the steam will be supplied by Jiangsu Chemical. Jiangsu Chemical will also be responsible for installing steam pipelines and other facilities to transfer steam to its production facilities. The Steam Services Agreement is for a term of two years and eight months commencing from 1 May 2008 till 31 December 2010.

## LETTER FROM THE BOARD

The electricity and steam service fees under the Agreements will be paid in cash by Jiangsu Chemical within 14 days after the end of each month based on actual consumption subject to the amounts restricted by the Annual Caps.

The electricity and steam service fees under the Agreements were negotiated and determined on an arms length basis based on the estimated supply costs (including overheads and a mark up representing investment and financing costs of the electricity and steam generating facilities) to Jiangsu Paper. The Directors are of the view that such mark up is fair and reasonable as it represents a fair return, that is, to allow for its investment costs in the same production facilities for steam and electricity (as steam is a by-product from the production of electricity) to break even in 4 years time assuming continuous supply of steam and electricity throughout these four years, together with the combination of the following factors. As regards supply of steam services, there are no other suppliers nearby the production facilities of Jiangsu Chemical and the rate charged by Jiangsu Paper (taking into consideration the costs of raw material and steam pipelines which will be provided by Jiangsu Chemical) is in line with those which Jiangsu Paper is charging other steam customers. As regards supply of electricity service, the Group considers such basis for determination of the rate to be reasonable as its service fees (taking into account of the service fees of supplying steam) represents a fair return of its investment in the electricity and steam generating facilities as stated above and there are no relevant market rates from other suppliers in the vicinity of Jiangsu Paper and Jiangsu Chemical which can be used as benchmark for the rates under the Agreements.

The Company proposes that the maximum aggregate annual consideration under the Agreements 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 2011:

Type of Transaction	Annual Caps for financial year ending 31 March		
	2009	2010	2011
Services to generate electricity by Jiangsu Paper for Jiangsu Chemical	RMB21,500,000 (approximately HK\$23,435,000)	RMB30,000,000 (approximately HK\$32,700,000)	RMB22,500,000 (approximately HK\$24,525,000)
Services to generate steam by Jiangsu Paper for Jiangsu Chemical	RMB32,500,000 (approximately <u>HK\$35,425,000</u> )	RMB50,000,000 (approximately <u>HK\$54,500,000</u> )	RMB37,500,000 (approximately <u>HK\$40,875,000</u> )
Total	RMB54,000,000 (approximately <u>HK\$58,860,000</u> )	RMB80,000,000 (approximately <u>HK\$87,200,000</u> )	RMB60,000,000 (approximately <u>HK\$65,400,000</u> )

The Annual Caps have been determined by reference to the following principal factors:

- the spare electricity/steam capacity of Jiangsu Paper available for Jiangsu Chemical's requirements after taking into account Jiangsu Paper's own anticipated consumption requirements;



## **LETTER FROM THE BOARD**

- the production plans and the related estimated electricity and steam requirements of Jiangsu Chemical for the period from 1 May 2008 up to 31 December 2010; and
- the unit price of electricity and steam services to be provided.

### **Condition Precedent**

Each of the Agreements is conditional upon the approval of the Independent Shareholders at the EGM. In addition, since Lee & Man Holding is a listed company on the Stock Exchange, the Agreements also constitute continuing connected transactions for Lee & Man Holding and is subject to approval by their independent shareholders.

### **INFORMATION ON LEE & MAN HOLDING AND JIANGSU CHEMICAL**

Lee & Man Holding and its subsidiaries are principally engaged in the manufacture and sale of handbags and luggage and chemical production. The principal business of Jiangsu Chemical is in the production and sales of chloromethane products, and the production facilities of Jiangsu Chemical is nearby the production of the Group in Jiangsu.

### **REASONS FOR AND BENEFIT OF THE TRANSACTIONS UNDER AGREEMENTS**

The electricity and steam generating facilities of the Group has catered for the Group's long term production plan and will not be fully utilised during the term of the Agreements. The Group is currently supplying approximately 360,000 tons of steam per year to four independent customers but does not consider that there will be any other customer for the unutilised electricity and steam generating capacity. As at the Latest Practicable Date, the amount of unutilised electricity and steam capacity of Jiangsu Paper is approximately 764 million kwh per year and 3.3 million tons per year respectively. Through generate electricity and supply steam in excess of those required for its own anticipated consumption requirements during this period for supply to Jiangsu Chemical which is not in the same line of business or does not operate in the areas in which the Group has its core operations, the transactions will enable the Group to make use of the unutilised electricity and steam generating resources to generate additional income. It will also enhance the overall operational efficiency of the generating facilities due to larger scale of economy, and will lower the unit costs of electricity and steam to the Group.

The Agreements have been negotiated and agreed on an arms' length basis between the Group and Jiangsu Chemical based on normal commercial terms. The Directors consider the terms of the Agreements to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **GENERAL**

The Group is a large-scale paper manufacturer and specializes in the production of linerboard and corrugating medium. The principal business of Jiangsu Paper is manufacturing and trading of paper.

Jiangsu Chemical is a wholly owned subsidiary of Lee & Man Holding, an associate of Mr. Lee Wan Keung, Patrick, the chairman of the Company and a Director, as a result of Mr. Lee Wan Keung, Patrick being the ultimate controlling shareholder of Lee & Man Holding. As at the Latest Practicable

## **LETTER FROM THE BOARD**

Date, Mr. Lee Wan Keung Patrick is interested in 51 shares of Gold Best Holdings Limited (representing 51% of its entire issued share capital), which in turn is interested in 715,661,200, representing approximately 62.92% of the shares in the Company. Accordingly, the transactions under the Agreements constitute continuing connected transactions. The Company does not hold any shares in Lee & Man Holding and vice versa as at the Latest Practicable Date.

On 25 August 2006, Dongguan Lee & Man, an indirect wholly-owned subsidiary of the Company, entered into the Business Services Agreements with Lee & Man Industrial, an associate of Mr. Lee Wan Keung, Patrick, details of which are set out in the Company's announcement dated 25 August 2006. Under the Listing Rules, the Annual Caps will be aggregated with the annual caps under the Business Services Agreements. As the Business Services Agreements ends on 31 March 2009, the Annual Cap for the financial year ending 31 March 2009 as aggregated by reference to the annual cap under the Business Services Agreements is approximately HK\$255.42 million.

Save for the Agreements and the Business Services Agreements, the Company has confirmation from Mr. Lee Wan Keung, Patrick that he and his associates do not have any other transactions with the Group that are subsisting and are subject to aggregation pursuant to Rule 14A.25 to 14A.27 of the Listing Rules.

As the Annual Caps (which, under the Listing Rules, will be aggregated with the annual caps under the Business Services Agreements) is 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 Agreements and their respective Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Mr. Lee Wan Keung, Patrick, and his associates will abstain from voting at the EGM of the Company to approve the Agreements, and the votes of the Independent Shareholders in the EGM will be taken by poll.

### **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.

## LETTER FROM THE BOARD

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

### **RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee as set out on page 10 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the transactions contemplated under Agreements.

The advice of CIMB-GK to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole are set out on pages 11 to 15 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)

31 March, 2008

*To the Independent Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

I have been appointed as the sole member the Independent Board Committee to advise the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the Agreements, 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 CIMB-GK 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 Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole, as set out in the “Letter from CIMB-GK” 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 CIMB-GK in relation thereto as stated in its letter, I consider the terms of the transactions contemplated under the Agreements to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, I recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated under the Agreements.

Yours faithfully,

**Independent Board Committee**

**Ms. Law Kar Shui, Elizabeth**

*Independent Non-executive Director*

\* for identification purposes only

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



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

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

31 March, 2008

*To the independent board committee and  
the independent shareholders of  
Lee & Man Paper Manufacturing Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the Annual Caps. Details of the terms of the continuing connected transactions are set out in the letter from the Board contained in the circular of the Company dated 31 March 2008 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company. The Directors have declared in a responsibility statement set out in the Appendix to the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the Directors’ 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 despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. 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 to reach an informed view, to justify reliance on the accuracy of the information contained and the Directors’ representations made in the Circular and to provide a reasonable basis for our recommendation. 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, Lee & Man Holding or any of their subsidiaries or associates.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the continuing connected transactions (including the Annual Caps), we have considered the following principal factors and reasons:

#### Background and rationale

The Group is principally engaged in the large-scale paper manufacturing and specializing in the production of linerboard and corrugating medium.

On 14 March 2008, Jiangsu Paper, a wholly owned subsidiary of the Company, entered into the Agreements with Jiangsu Chemical, a wholly owned subsidiary of Lee & Man Holding. Under the Electricity Services Agreement, Jiangsu Paper will provide services to generate electricity for Jiangsu Chemical. Under the Steam Services Agreement, Jiangsu Paper will provide services to generate steam for Jiangsu Chemical. The Agreements is for a term of two years and eight months commencing from 1 May 2008 till 31 December 2010.

As noted from the Letter from the Board, the production facilities of Jiangsu Chemical are nearby to those of the Group in Jiangsu. The electricity and steam generating facilities of the Group has been catered for the Group's long term production plan and will not be fully utilised during the term of the Agreements as save for the 4 existing independent customers, the Group consider that there will be no other customer for such unutilized electricity and steam in the proximity of Jiangsu Paper. As at the date of the Agreements, the amount of unutilised electricity and steam capacity of Jiangsu Paper is approximately 764 million kwh per year and 3.3 million tons per year respectively. Given this, we concur with the view of the Directors that, the transactions contemplated under the Agreements will enable the Group to generate electricity and supply steam in excess of those required for its own anticipated consumption requirements during this period for supply to Jiangsu Chemical, which the Group will be able to make use of the unutilised electricity and steam generating resources to generate additional income. It will also enhance the overall operational efficiency of the generating facilities due to larger scale of economy, and to lower the unit costs of electricity and steam to the Group.

Given the above and the fact that i) additional revenue will be generated by making use of the Group's unutilised electricity and steam generating resources; and ii) the continuing connected transactions contemplated under the Agreements will be based on normal commercial terms on an arm's length basis as elaborated below, we consider that the Agreements are in the interests of the Company and the Shareholders as a whole.

#### The Agreements

Pursuant to the Agreements, the Group will provide services to generate electricity and steam for Jiangsu Chemical at an electricity service fees of RMB0.05 per Unit and a steam service fees of RMB90.00 per tone, respectively. The coal and other raw material for generating the electricity will be supplied by Jiangsu Chemical. Jiangsu Chemical will also be responsible for installing the electricity cables and other facilities to transmit electricity to its production facilities. The coal for generating the steam will be supplied by Jiangsu Chemical. Jiangsu Chemical will also be responsible for installing steam pipelines and other facilities to transfer steam to its production facilities.

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

As noted from the Letter from the Board, in regard to the supply of steam services, there are no other suppliers nearby the production facilities of Jiangsu Chemical; in addition, in regard to the supply of electricity service, there are no relevant market rates from other suppliers in the vicinity of Jiangsu Paper and Jiangsu Chemical which can be used as benchmark for the rates under the Agreement.

We have been advised by the Directors that the pricing basis for the electricity service fees and steam charges contemplated under the Agreements were determined based on the estimated supply costs (including overheads and a mark up representing investment and financing costs of the electricity and steam generating facilities) to Jiangsu Paper and have been negotiated and agreed based on an arm's length basis between the Group and Jiangsu Chemical based on normal commercial terms. As noted from the Letter from the Board, in regard to the supply of steam services, the rates charged by Jiangsu Paper (taking into consideration that costs of raw material and steam pipelines which will be provided by Jiangsu Chemical) is in line with those which Jiangsu Paper is charging other steam customers; in addition, in regard to the supply of electricity service, the Group has considered that the rates are reasonable as they represent a fair return of its investment in the electricity generating facilities.

In regard to the supply of steam, we note that there is no comparable transaction for the supply of steam to other independent third parties as, unlike other customers, the costs of raw material and installation of the steam pipelines for the supply of steam to Jiangsu Chemical will be provided by Jiangsu Chemical. In regard to the supply of electricity, we note that Jiangsu Paper has not supplied electricity to other independent third party. We have reviewed the breakdown of overheads, investment and financing costs of the electricity and steam generating facilities and noted that with larger production volume, the unit costs of electricity and steam to the Group will decrease. Given this, we concur with the view of the Directors that with larger scale of economy, the overall operational efficiency of the generating facilities will be enhanced.

### **Views**

Having considered the above, we consider the terms of the Agreements to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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

### Annual Caps

The following table sets out the respective proposed Annual Caps for the Agreements for each of the three financial years ending 31 March 2011.

Type of transaction	Annual Caps for financial year ending 31 March		
	2009	2010	2011
Services to generate electricity by Jiangsu Paper for Jiangsu Chemical	RMB21,500,000 (approximately HK\$23,435,000)	RMB30,000,000 (approximately HK\$32,700,000)	RMB22,500,000 (approximately HK\$24,525,000)
Services to generate steam by Jiangsu Paper for Jiangsu Chemical	RMB32,500,000 (approximately <u>HK\$35,425,000</u> )	RMB50,000,000 (approximately <u>HK\$54,500,000</u> )	RMB37,500,000 (approximately <u>HK\$40,875,000</u> )
Total	RMB54,000,000 (approximately <u>HK\$58,860,000</u> )	RMB80,000,000 (approximately <u>HK\$87,200,000</u> )	RMB60,000,000 (approximately <u>HK\$65,400,000</u> )

The proposed Annual Caps have been principally determined by the Directors with reference to the following factors:

- the spare electricity/steam Capacity of the Group available for Jiangsu Chemical's requirement after taking into account the Group's own anticipated consumption requirements;
- the production plans and the related estimated electricity and steam requirements of Jiangsu Chemical for the period from 1 May 2008 up to 31 December 2010; and
- the unit price of electricity service and steam pursuant to the Agreements.

As advised by the Directors, the increase in the Annual Cap for 2010 compared to 2009 is due to the fact that production plans of Jiangsu Chemical will be carried out in two phases, with phase one expected to commence operation by the end of March 2008 and phase two expected to commence operation in the fourth quarter of 2008. The production capacity of phase two is almost double that of phase one and as such, the Annual Cap for 2010 is substantially larger than that of 2009. We also note that the Agreements has a term ending 31 December 2010, as a result, the Annual Cap for 2011 only represents 75% of the Annual Cap for the year ending 31 March 2010. In addition, we have reviewed the historical consumption requirements of the Group and the calculation prepared by the Company on the estimated electricity and steam requirements of the Jiangsu Paper.

Given the above, we are of the view that the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. However, as the Annual 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 2011, consequently, we express no opinion as to how closely the actual amount to be incurred under the continuing connected transactions contemplated under the Agreements will correspond with the Annual Caps.



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

**RECOMMENDATION**

Having considered the principal factors and reasons referred to above, we consider that the Agreements is in the interests of the Company and the Shareholders as a whole, and the terms thereof including the Annual Caps are fair and reasonable, on normal commercial term and in the ordinary and usual course of business so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Agreements as well as the Annual Caps.

Yours faithfully,

For and on behalf of

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

**Alex Lau**

*Director*

**Flavia Hung**

*Director*

**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 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*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Number of ordinary shares subject to options granted under the Share Option Scheme</b>	<b>Percentage of the issued share capital of the Company</b>
Lee Wan Keung Patrick	Held by controlled corporation ( <i>Note</i> )	715,661,200	—	62.92%
Lee Man Chun Raymond	Beneficial owner	—	492,000	0.04%
Lee Man Bun	Beneficial owner	—	300,000	0.03%
Li King Wai Ross	Beneficial owner	—	600,000	0.05%
Poon Chung Kwong	Beneficial owner	150,000	480,000	0.06%
Wong Kai Tung Tony	Beneficial owner	400,000	—	0.04%
Heng Kwoo Seng	Beneficial owner	820,000	—	0.07%

*Note:* These shares were held by Gold Best Holdings Ltd. ("Gold Best").

*Directors' interests in associated corporations of the Company*

<b>Name of Director</b>	<b>Capacity</b>	<b>Name of associated corporation</b>	<b>Number of ordinary shares</b>	<b>Percentage of the issued share capital of associated corporation</b>
Lee Wan Keung Patrick	Beneficial owner	Gold Best	51	51%
Lee Man Chun Raymond	Beneficial owner	Gold Best	29	29%
Lee Man Bun	Beneficial owner	Gold Best	20	20%

*Note:* As Gold Best owns more than 50% interest of the Company, Gold Best is an associated corporation of the Company under the SFO. Gold Best is a controlled corporation of Mr. Lee Wan Keung Patrick under the SFO. The entire issued share capital of Gold Best is owned by Mr. Lee Wan Keung Patrick, Mr. Lee Man Chun Raymond and Mr. Lee Man Bun (all of them are directors of the Company). Mr. Lee Wan Keung Patrick and Mr. Lee Man Chun Raymond, both of whom are directors of the Company, 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*

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Percentage of the issued share capital of the Company</b>
Gold Best	Beneficial owner	715,661,200	62.92%
Lee Wan Keung	Held by controlled corporation	715,661,200	62.92%
Lee Wong Wai Kuen	Held by spouse ( <i>Note</i> )	715,661,200	62.92%

*Note:* Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 715,661,200 ordinary shares as she is the spouse of Lee Wan Keung Patrick, a director of the Company.

### 3. 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 2007	Three years	Nil
Lee Man Chun Raymond	1 September 2007	Three years	3,360,000
Lee Man Bun	16 August 2007	Three years	2,160,000
Li King Wai Ross	12 August 2005	Three years	840,000
Poon Chung Kwong	1 February 2008	One year	Nil
Wong Kai Tung Tony	11 September 2007	One year	80,000
Heng Kwoo Seng	11 September 2007	One year	120,000
Law Kar Shui Elizabeth	1 January 2008	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).

### 4. 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 2007, being the date up to which the latest published audited financial statements of the Group were made up.

### 5. Competing Interests

None of the Directors 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. 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:

Name	Qualification
CIMB-GK	a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, CIMB-GK 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, 2007, 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 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.

#### **7. 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, 2007, 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.

#### **8. Miscellaneous**

- (a) The company secretary and 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, 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.

#### **9. 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 5/F Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong, from 31 March 2008 for a period of 14 days up to 13 April 2008:

- (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 10 of this circular;
- (d) the letter from CIMB-GK, the text of which is set out on pages 11 to 15 of this circular;

- (e) the written consent of CIMB-GK referred to in the section headed “Expert” in this Appendix;
- (f) the directors’ service contracts referred to in the section “Service Contracts” in this Appendix;
- (g) the Agreements; and
- (h) the 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 25 April 2008 at 9.30 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company:

**ORDINARY RESOLUTION**

1. “**THAT** the electricity services agreement (“the Electricity Services Agreement”) dated 14 March 2008 between Jiangsu Lee & Man Paper Manufacturing Company Limited and Jiangsu Lee & Man Chemical Limited for the supply of electricity services and the annual caps and the transactions contemplated thereunder be and are hereby approved and any one director be and are hereby authorised to exercise all the powers of the Company and take all other steps are they may in their opinion to be desirable for necessary in connection with the Electricity Services Agreement and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”
2. “**THAT** the steam services agreement (“the Steam Services Agreement”) dated 14 March 2008 between Jiangsu Lee & Man Paper Manufacturing Company Limited and Jiangsu Lee & Man Chemical Limited for the supply of steam services and the annual caps and the transactions contemplated thereunder be and are hereby approved and any one director be and are hereby authorised to exercise all the powers of the Company and take all other steps are they may in their opinion to be desirable for necessary in connection with the Steam Services Agreement and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”

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

31 March 2008

*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.

\* *for identification purposes only*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

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 four executive directors, namely Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond, Mr. Lee Man Bun and Mr. Li King Wai, Ross, 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.*