

**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)

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES IN FSGL**

**CONTINUING CONNECTED TRANSACTION  
SHAREHOLDERS' LOAN TO FSGL**

**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 12 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 13 to 17 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 Friday, 28 September 2007 at 4:00 p.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 purpose only

## CONTENTS

<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	4
<b>Letter from the Independent Board Committee</b> .....	12
<b>Letter from CIMB-GK Securities (HK) Limited</b> .....	13
<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:

“Board”	the board of Directors;
“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 and the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
“Company”	Lee & Man Paper Manufacturing Limited;
“Completion”	completion of the transaction contemplated under the Subscription Agreement;
“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;
“EGM”	extraordinary general meeting to be convened by the Company for the approval of the transactions contemplated under the Subscription Agreement and the Shareholders’ Agreement;
“FSGL”	Fortune Sight Group Limited, in Company incorporated in the British Virgin Islands;
“FSGL Shares”	shares of US\$1 each in the share capital of FSGL;
“Group”	the Company and its subsidiaries;
“Group’s Costs of Funding”	the costs to the Group to raise monies (by way of loan or otherwise) to fund the shareholders’ loan to be advanced to FSGL under the Shareholders’ Agreement;
“Guangxi Project Company”	廣西理文林業科技發展有限公司 (Guangxi Lee & Man Forestry Technology Limited), a wholly-owned foreign enterprise established in the PRC and wholly-owned by FSGL;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, PRC;

## DEFINITIONS

“Independent Board Committee”	a committee of the Board comprising Mr. Wong Kai Tung Tony, Mr. Heng Kwo Seng and Ms. Law Kar Shui Elizabeth, being the independent non-executive Directors;
“Independent Shareholders”	Shareholders other than the Controlling Shareholder and its associates;
“L&M Industries”	Lee & Man Industries Company Limited, a company incorporated in the British Virgin Islands;
“Latest Practicable Date”	6 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Option”	the option granted to L&M Industries to require Well Boom to sell all but not part of the Option Shares to L&M Industries and/or its nominee;
“Option Agreement”	the option agreement to be entered into between Well Boom and L&M Industries on Completion in respect of the Option;
“Option Period”	the period starting from 3 years after the date of Completion up to 8 years from the date of Completion;
“Option Shares”	360 FSGL Shares or such number of FSGL Shares which represents 36% interest in the issued share capital of FSGL as at the date of exercise of the Option;
“Purchase Price”	the price for the Option Shares, being US\$1 per Option Share;
“SFO”	Securities and Futures Ordinance of Hong Kong;
“Shareholders”	holders of the Share(s);
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between FSGL, L&M Industries and Well Boom on Completion in accordance with the terms of the Subscription Agreement;
“Shares”	ordinary shares of HK\$0.10 in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

## DEFINITIONS

“Subscription”	the subscription of 810 and 90 new FSGL Shares by Well Boom and L&M Industries respectively in accordance with the terms of the Subscription Agreement;
“Subscription Agreement”	the Subscription Agreement dated 24 August 2007 entered into between FSGL, L&M Industries and Well Boom in respect of, among other things, the Subscription;
“Subscription Price”	subscription price for the Subscription Shares, being US\$1 per Subscription Share;
“Subscription Shares”	900 FSGL Shares;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“US\$”	United States Dollars. For information only, US\$ have been translated into HK\$ as to US\$1 to HK\$7.8. No representation is made that such amounts were or could be exchanged at such rates;
“Well Boom”	Well Boom International Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Controlling Shareholder; 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 Directors:*

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 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

10 September 2007

*To Shareholders of the Company*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES IN FSGL**

**CONTINUING CONNECTED TRANSACTION  
SHAREHOLDERS' LOAN TO FSGL**

**INTRODUCTION**

Reference is made to the announcement made by the Company dated 24 August 2007. On 24 August 2007, FSGL, L&M Industries and Well Boom entered into the Subscription Agreement in respect of the investment in FSGL by Well Boom. Pursuant to the Subscription Agreement, L&M Industries and Well Boom will subscribe for 90 and 810 new FSGL Shares respectively. Upon Completion, Well Boom and the Company (through L&M Industries) will be interested in 81% and 19% respectively of the issued share capital of FSGL as enlarged by the allotment and issue of new FSGL Shares pursuant to the Subscription, and FSGL will no longer be a subsidiary of the Company.

\* For identification purposes only

## LETTER FROM THE BOARD

On Completion and in accordance with the terms of the Subscription Agreement, Well Boom and L&M Industries will enter into the Option Agreement pursuant to which Well Boom will grant the Option to L&M Industries to purchase the Option Shares at the Purchase Price. In addition, FSGL, L&M Industries and Well Boom will enter into the Shareholders' Agreement.

Well Boom is an associate of the Controlling Shareholder and is therefore a connected person to the Company. Accordingly, the transaction contemplated under the Subscription Agreement is a connected transaction and the shareholders' loan(s) to be advanced pursuant to the Shareholders' Agreement is a continuing connected transaction under Chapter 14A of the Listing Rules, both of which are subject to approval by the Independent Shareholders.

The purpose of this circular is (i) to provide you with further information in relation to the transactions contemplated under the Subscription Agreement and the Shareholders' Agreement; (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, 28 September, 2007 for the purpose of obtaining the approval from the Independent Shareholders in respect of the subject transactions by way of poll.

### THE SUBSCRIPTION AGREEMENT

The main terms of the Subscription Agreement are set out below:

#### Date

24 August 2007

#### Parties

Issuer : FSGL

Subscribers : L&M Industries and Well Boom

### Subscription of FSGL Shares

Pursuant to the Subscription Agreement, FSGL will allot and issue, and each of L&M Industries and Well Boom (each as to the number of shares set out below) will subscribe for the Subscription Shares as follows:

L&M Industries: 90 new FSGL Shares, representing approximately 9% of the entire issued share capital of FSGL. In addition to the 100 FSGL Shares already held by L&M Industries prior to the date of the Subscription Agreement, L&M Industries will on Completion hold a total of 190 FSGL Shares, representing approximate 19% of the entire issued share capital of FSGL, as enlarged by the allotment and issue of new FSGL Shares pursuant to the Subscription.

## LETTER FROM THE BOARD

Well Boom: 810 new FSGL Shares, representing approximately 81% of the entire issued share capital of FSGL, as enlarged by the allotment and issue of new FSGL Shares pursuant to the Subscription.

The Group's acquisition costs for 81% of the existing share capital of FSGL, that is 81 FSGL Shares, are US\$81 which is equal to the fair value of the relevant shares.

### **Consideration**

The Subscription Price for the FSGL Shares subscribed by L&M Industries is in the amount of US\$90 (which is equal to the par value of the relevant Subscription Shares) will be paid to FSGL in cash on Completion and will be satisfied by internal resources of the Group. The consideration for the Subscription was arrived at after arm's length negotiation among FSGL, L&M Industries and Well Boom with reference to the higher of the par value of the Subscription Shares and the net liability position of FSGL as at 31 March 2007.

As at the Latest Practicable Date, the shareholders' loans advanced to FSGL amount to approximately HK\$152 million and it is possible that further shareholders' loan of not exceeding HK\$48 million (thereby increasing the aggregate shareholders' loan to up to HK\$200 million) may be advanced to FSGL prior to Completion. On Completion L&M Industries will assign to Well Boom on a dollar-for-dollar basis 81% of the shareholders' loan in FSGL at that time which amount will not exceed HK\$162 million. The price for such shareholders' loan will be paid on or before 90 days from the date of Completion.

### **Condition Precedent**

The Subscription Agreement is conditional upon the approval by Independent Shareholders in general meeting in accordance with the Listing Rules.

If the above condition has not been fulfilled by 31 December 2007 (or such other date agreed by the parties in writing), the Subscription Agreement will automatically terminate and none of the parties will have any claim against the other parties.

### **Rights of the Subscription Shares**

The Subscription Shares will on issue rank equally with the existing FSGL Shares.

### **Completion**

Completion will occur on the second business day after the condition referred to above is fulfilled or such other date as the parties agree in writing.

## LETTER FROM THE BOARD

### **Other terms**

#### *Option agreement*

On Completion and in accordance with the terms of the Subscription Agreement, Well Boom and L&M Industries will enter into the Option Agreement pursuant to which Well Boom will grant the Option to L&M Industries to purchase the Option Shares at the Purchase Price. The consideration for the grant of the Option was agreed between L&M Industries and Well Boom to be a nominal sum of US\$1. The entering into of the Option Agreement is conditional upon completion of the Subscription.

The Option is exercisable in whole but not in part in the sole discretion of L&M Industries during the Option Period or at such earlier time that Well Boom agrees. If the Option is not exercised within the Option Period, it will automatically lapse. Upon exercise of the Option L&M Industries will have 55% attributable interest in the issued share capital of FSGL. For so long as the Company can exercise significant influence over FSGL and until the Option is exercised, FSGL will be treated as an associate of the Company for accounting purposes and the Option will be reflected at its fair value in the books of the Group.

The exercise (or no exercise, as the case may be) of the Option will be subject to requirements under the Listing Rules. An announcement will be made as and when the Option is exercised (or not exercised, as the case may be) and the Company will comply with such relevant requirements under the Listing Rules.

#### *Shareholders' Agreement*

On Completion and in accordance with the terms of the Subscription Agreement, FSGL, L&M Industries and Well Boom will enter into the Shareholders' Agreement. The entering into of the Shareholders' Agreement is conditional upon completion of the Subscription.

Under the Shareholders' Agreement, the number of directors and the board composition of FSGL will be decided by its shareholders at general meeting. In addition, any transfer of shares by L&M Industries and Well Boom will be subject to the first right of refusal to purchase on same terms by the other.

Further, L&M Industries and Well Boom agreed that they will advance shareholders' loans to FSGL for the funding of the Guangxi Project Company as and when requested by the board of directors of FSGL in stages depending on the progress of the forestry resource development. Such shareholders' loans will be on a revolving basis and bearing interest at interest rates of not less than the Group's Costs of Funding. The total principal of shareholders' loans to be advanced by L&M Industries over the next 3 years will not exceed HK\$1.65 billion and those advanced by Well Boom over the same period will not exceed HK\$1.35 billion. The shareholders' loan to be advanced by L&M Industries will be subject to an annual cap of HK\$1.65 billion and the aggregate amount of shareholders' loan to be advanced by L&M over the next 3 years ending 31 March 2010 will not exceed HK\$1.65 billion. The annual caps were determined by reference to L&M Industries' pro rata share of the current expected financial commitment to the whole project amounting to approximately HK\$3 billion for the next five years.

## LETTER FROM THE BOARD

The advance and repayment of such shareholders' loans including interest will depend on the cash requirement and cash flow of FSGL respectively, as well as the cash availability of L&M Industries and Well Boom. Accordingly, it is possible that at any one time the shareholders' loans advanced to FSGL by L&M Industries and Well Boom may not be pro rata to their respective shareholding (as if the Option is exercised). Nevertheless, to the extent that the shareholders' loan(s) are not advanced on such pro rata basis, a pro rata position will be restored on the earlier of (i) L&M Industries holding a majority stake in FSGL or (ii) 8 years from the date of Completion (at which time the Option will lapse if not already exercised), whereby L&M Industries or Well Boom, as the case may be, will assign on a dollar-for-dollar basis the appropriate amount of shareholders' loans to the other so that the shareholders' loans advanced by both will be proportionate to their shareholding at that time. To the extent necessary, the Company will comply with the relevant requirements under the Listing Rules at that time.

As and when decided by the board of directors of FSGL in its sole discretion, L&M Industries and Well Boom will cause the share capital of the Guangxi Project Company to be increased to amount(s) that FSGL considers expedient so as to enable the shareholders' loans to be channelled into the Guangxi Project Company to fund of its operations.

The Shareholders' Agreement and the potential shareholder loans to be made thereunder will constitute a continuing connected transaction which is subject to approval by the Independent Shareholders at the EGM.

### SHAREHOLDINGS IN FSGL

The table below sets out the shareholding structure of FSGL before and upon Completion and upon exercise of the Option by L&M Industries:

<b>Shareholder of FSGL</b>	<b>Number (Percentage) of FSGL Shares before Completion</b>	<b>Number (Percentage) of FSGL Shares upon Completion</b>	<b>Number (Percentage) of FSGL Shares assuming exercise of the Option</b>
L&M Industries	100 (100%)	190 (19%)	550 (55%)
Well Boom	—	810 (81%)	450 (45%)
Total	100 (100%)	1,000 (100%)	1,000 (100%)

Upon Completion, Well Boom and the Company will be interested in 81% and 19% respectively of the issued share capital of FSGL as enlarged by the allotment and issue of new FSGL Shares pursuant to the Subscription, and FSGL will no longer be a subsidiary of the Company.

## **LETTER FROM THE BOARD**

### **INFORMATION ON FSGL**

FSGL is the holding company of the Guangxi Project Company. The Guangxi Project Company is principally engaged in the business of forestry resources in the Guangxi Province of the PRC. The forestry resources include, amongst other things, acquire, grow, harvest and replant timber on commercial forestry plantations located in Guangxi Province. The commercial forests will, upon maturity, become a source supply for meeting the Company's growing demand for wood fibre for the production of paper and pulp. The Guangxi Project Company is a company at its start-up phase and has not yet commenced business operations. Under the current operating plan, Guangxi Project Company intends to acquire up to 150,000 hectares of commercial forests and the associated plantation land use rights. The Company intends to mitigate the financial risks relating to the execution of the operating plan by entering into the transaction.

Funds were applied to acquire commercial forestry plantations in Guangxi province, which are expected to be income generating upon its maturity. Accordingly, the consolidated net results of FSGL, the holding company of the Guangxi Project Company, under the Company's audited accounts was nil for the year ended 31 March 2006 and was approximately HK\$5.67 million loss for the year ended 31 March 2007. The consolidated net liability of FSGL and its subsidiaries as at 31 March 2007 under the Company's audited accounts was approximately HK\$3.73 million.

### **INFORMATION ON WELL BOOM**

Well Boom is a holding company incorporated in the British Virgin Islands and wholly-owned by the Controlling Shareholder.

### **REASONS FOR AND BENEFIT OF THE TRANSACTION**

Based on the latest development plan for the project undertaken by the Guangxi Project Company, it is currently expected that the financial commitment to the whole project would amount to approximately HK\$3 billion for the next five years. By adopting a prudent investment approach to the project, the Directors are of the view that the Subscription will enable the Company to minimise the related investment risks and its financial impact of the project to the Group as well as to contain the gearing position of the Group. Furthermore, the Shareholders' Agreement and the Option Agreement will enable the Company to monitor the progress of the project on one hand, and at its full discretion can resume a controlling interest in FSGL at the price of US\$1 per FSGL Share upon exercise of the Option. In this regard, the Directors are of the view that the transactions contemplated under the Subscription Agreement and the Shareholders' Agreement are in the interests of the Company and is on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole.

The transaction is expected to accrue a gain of approximately HK\$3 million (based on the audited accounts of the Group as at 31 March 2007). The proceeds to be received by the Group will be applied as general working capital.

### **GENERAL**

The Group is a large-scale integrated paper and pulp manufacturer and specialises in production of containerboard and pulp.

## **LETTER FROM THE BOARD**

Well Boom is an associate of the Controlling Shareholder and is therefore a connected person to the Company. Accordingly, the transactions contemplated under the Subscription Agreement is a connected transaction and the shareholders' loan(s) to be advanced pursuant to the Shareholders' Agreement is a continuing connected transaction under Chapter 14A of the Listing Rules, both of which are subject to approval by Independent Shareholders by way of poll.

As at the Last Practicable Date of this circular, the Controlling Shareholder and its associates holds 721,860,000 Shares, representing approximately 63.49% of the issued share capital of the Company. They are required under the Listing Rules to abstain from voting on the resolution to approve the transactions contemplated under the Subscription Agreement and Shareholders' Agreement.

The granting of the Option is a de minimus transaction under Chapter 14A.31(2) of the Listing Rules and is exempt from reporting, announcement and Independent Shareholders' approval requirements. The exercise (or no exercise, as the case may be) of the Option will be a connected transaction subject to requirements under the Listing Rules. An announcement will be made as and when the Option is exercised (or not exercised, as the case may be) and the Company will comply with the relevant requirements under the Listing Rules

### **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 12 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the transactions contemplated under Subscription Agreement and the Shareholders' Agreement.

The advice of CIMB-GK to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement and the Shareholders' Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole are set out on pages 13 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)**

10 September, 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES IN FSGL  
AND  
CONTINUING CONNECTED TRANSACTION  
SHAREHOLDERS' LOAN TO FSGL**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the Subscription Agreement and the Shareholders' Agreement, 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 Subscription Agreement and Shareholders' Agreement are reasonable and in the interest 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, we consider the terms of the transactions contemplated under Subscription Agreement and Shareholders' Agreement to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we 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 Subscription Agreement and the Shareholders' Agreement.

Yours faithfully,  
**Independent Board Committee**  
**Mr. Wong Kai Tung Tony**  
**Mr. Heng Kwo Seng**  
**Ms. Law Kar Shui Elizabeth**  
*Independent Non-executive Directors*

\* 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

10 September 2007

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

Dear Sirs,

**CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to the Subscription Agreement and the advancement of shareholder's loan by L&M Industries to FSGL (the "Continuing Connected Transaction") under the Shareholders' Agreement and the related annual cap, details of which are contained in the Circular dated 10 September 2007, 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 Subscription Agreement and the Continuing Connected Transaction 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 Well Boom or any of their respective subsidiaries or associates.

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

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in respect of the Subscription Agreement and the Continuing Connected Transaction, 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. We note that it has been the Company's intention to vertically expand upstream to secure its source of supply of wood fibre for the Group's production of paper and pulp. The Company commenced to develop the forestry resource project (including acquire, grow, harvest and replant timber on commercial forests) through Guangxi Project Company in Guangxi Province in 2007. FSGL is the holding company of Guangxi Project Company.

As stated in the Letter from the Board, the Guangxi Project Company is still at its start-up phase and has yet to commence business operations. The audited consolidated net loss of FSGL was nil for the year ended 31 March 2006 and approximately HK\$5.67 million for the year ended 31 March 2007. The consolidated net liability of FSGL and its subsidiaries attributable to equity shareholders to the Company as at 31 March 2007 under the Company's audited accounts was approximately HK\$3.73 million. As at the Latest Practicable Date, the Company has invested by way of shareholder's loan of approximately HK\$152 million to the Guangxi Project Company and as advised by the Directors such funds were applied to acquire commercial forestry plantations in Guangxi province.

Based on the latest development plan for the project undertaken by the Guangxi Project Company, the Company currently expects that the financial commitment to the whole project would amount to HK\$3 billion for the next five years. Given this investment amount, and the existing financial position of the Group, we concur with the views of the Company that it would be financially prudent to effect the Subscription which will enable the Group to minimise the related investment risks, and the financial impact of the project to the Group as well as to contain the gearing position of the Group should the Group is to develop the project on its own. Furthermore, we note that the Shareholders' Agreement and the Option Agreement, which form part of the Subscription Agreement to be entered into by the Company upon Completion, will enable the Company to monitor the progress of the project on one hand, and at its full discretion can resume a controlling interest of 55% stake in FSGL at the price of US\$1 per FSGL Share upon exercise of the Option. We also note that the Company will accrue an expected gain of approximately HK\$3 million (based on the audited accounts of the Group as at 31 March 2007) as a result of entering into the Subscription Agreement.

Having considered the above, and the fact that the Subscription Agreement together with the Option Agreement and the Shareholders' Agreement represent a prudent investment approach to be taken by the Company towards the forestry resource project during its initial start-up stage by retaining FSGL as an associated company, we consider that the entering into of the Subscription Agreement will enable the Company to mitigate the business and financial risks relating to the execution of the operating plan of the Guangxi Project

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

Company and to resume controlling interest, at the discretion of the Company, through the exercise of the Option at US\$1 per Option Share, which is in the interests of the Company and the Shareholders as a whole.

### **Consideration**

The Subscription Price was arrived at after arm's length negotiation amongst the parties with reference to the higher of the par value of the Subscription Shares and the net liability position of FSGL as at 31 March 2007. As FSGL recorded a net liability as at 31 March 2007, the Subscription Price is determined at US\$1 per Subscription Share, which is equal to the par value of the Subscription Shares.

As at the Latest Practicable Date, the shareholders' loans advanced by L&M Industries to FSGL amounted to approximately HK\$152 million and the Company expects that further shareholder' loan for an amount of not exceeding HK\$48 million (thereby increasing the aggregate shareholders' loan to up to HK\$200 million) may be advanced to FSGL prior to Completion, if required. Pursuant to the Subscription Agreement, L&M Industries will assign to Well Boom on a dollar-for-dollar basis 81% of the shareholder's loan in FSGL at that time which an amount will not exceed HK\$162 million (being 81% of the maximum amount of the shareholders' loan of HK\$200 million).

Given that the Subscription Price represents the par value of the Subscription Price and that the shareholders' loan will be assigned to Well Boom on a dollar-for-dollar basis in accordance with the ultimate shareholding structure of L&M Industries following Completion, we consider that the Subscription Price and the basis of the assignment of the shareholders' loan are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **Continuing Connected Transaction**

On Completion, FSGL, L&M Industries and Well Boom will enter into the Shareholders' Agreement, pursuant to which L&M Industries and Well Boom agreed that they will advance shareholder's loan(s) to FSGL for the funding of the Guangxi Project Company as and when requested by the board of directors of FSGL in stages depending on the progress of the forestry resource development. Such shareholder's loan(s) will be on a revolving basis and bearing interest at interest rate of not less than the Group's Costs of Funding. Given the revolving nature of the advancement of the shareholder's loan by L&M Industries to FSGL, it will constitute a continuing connected transaction of the Company.

The total principal of shareholder's loan(s) to be advanced by L&M Industries will not exceed HK\$1.65 billion and those advanced by Well Boom will not exceed HK\$1.35 billion over the next three years. We note this maximum amount of shareholder's loan represents the ultimate shareholding between L&M Industries and Well Boom in FSGL if and when the Option is being exercised.

The advance and repayment of such shareholders' loan(s) including interest will depend on the cash requirement and cash flow of FSGL respectively, as well as the cash availability of L&M Industries and Well Boom. Accordingly, it is possible that at any one

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

time the shareholders' loan(s) advanced to FSGL by L&M Industries and Well Boom may not be pro rata to their respective shareholding (as if the Option is exercised). However, we note that the Shareholders' Agreement also governs that to the extent that the shareholders' loan(s) are not advanced on a pro rata basis, a pro rata position will be restored on the earlier of (i) L&M Industries holding a majority stake in FSGL or (ii) 8 years from the date of Completion, whereby L&M Industries or Well Boom, as the case may be, will assign on a dollar-for-dollar basis the appropriate amount of shareholders' loan(s) to the other so that the shareholders' loan(s) advanced by both will be proportionate to their shareholding at that time. Given this, we consider that advancement mechanism of the shareholders' loan as contained in the Shareholders' Agreement provides equal flexibility to L&M Industries and Well Boom and is fair and reasonable as when the Option is exercised or at the date of expiry of the Option, the shareholders' loan amount will be proportionate to their shareholding.

### *Views*

Given i) the principle of the advancement of the shareholder's loan to FSGL; ii) the interest rate to be not less than the Group's Costs of Funding; and iii) the basis of the annual cap being the pro rata share (55% interest in FSGL upon exercise of the Option) of the current expected financial commitment to the project (of approximately HK\$3 billion) for the next five years, we consider the terms of the Continuing Connected Transaction and the related proposed annual cap thereunder to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

## **POSSIBLE FINANCIAL EFFECT**

### **Earnings**

Upon Completion, the Company will be interested in 19% of the issued share capital of FSGL as enlarged by the allotment and issue of new FSGL Shares pursuant to the Subscription Agreement, and FSGL will no longer be a subsidiary of the Company and its results will not be consolidated with those of the Group. Based on the audited net liabilities of the Guangxi Project Company as at 31 March 2007, the Group will record a gain of approximately HK\$3.0 million upon Completion.

### **Net asset value**

Given that the Subscription Price is based on the par value of the FSGL Share, the Subscription Agreement will not have any material impact on the consolidated net asset value of the Group.

### **Working capital**

Pursuant to the Subscription Agreement, the working capital of the Company will further be strengthened upon Completion by the assignment of the existing shareholders' loans made by L&M Industries to FSGL.

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

**RECOMMENDATION**

Having considered the principal factors and reasons referred to the above, we consider that the terms of the Connected Transaction is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole. We also 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 are fair and reasonable so far as the Company and Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, and 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 Subscription Agreement and the Shareholders' Agreement (including the potential shareholder's loans to be advanced thereunder and the relevant annual caps).

Yours faithfully,

For and on behalf of

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

**Alex Lau**

**Flavia Hung**

*Executive Vice President    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 have taken under Sections 344 and 345 of the SFO) or which would be required to be disclosed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the register referred therein pursuant to Section 352 of the SFO.

*Directors' interests in the Shares*

Name of Director	Capacity	Number of ordinary shares	Number of ordinary shares subject to options granted under the Pre-IPO Share Option Scheme	Percentage of the issued share capital of the Company
Lee Wan Keung Patrick	Held by controlled corporation ( <i>Note</i> )	721,860,000	—	63.49%
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	50,000	480,000	0.05%
Wong Kai Tung Tony	Beneficial owner	400,000	—	0.04%
Heng Kwoo Seng	Beneficial owner	900,000	—	0.08%

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

*Directors' interests in associated corporations of the Company*

Name of Director	Capacity	Name of associated corporation	Number of ordinary shares	Percentage of the issued shares capital of associated corporation
Lee Wan Keung Patrick	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*

Name of shareholder	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Gold Best	Beneficial owner	721,860,000	63.49%
Lee Wan Keung	Held by controlled corporation	721,860,000	63.49%
Lee Wong Wai Kuen	Held by spouse ( <i>Note</i> )	721,860,000	63.49%

*Note:* Under the SFO, Lee Wong Wai Kuen is deemed to be interested in these 721,860,000 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, 2006	One year (Note)	Nil
Wong Kai Tung Tony	11 September, 2006	One year (Note)	80,000
Heng Kwo Seng	11 September, 2006	One year (Note)	120,000
Law Kar Shui Elizabeth	1 January, 2006	One year (Note)	Nil

*Note:* The appointments of the non-executive directors are for an initial period at 1 year and shall continue until termination by either the relevant director or the Company by giving at least 3 months prior notice in writing.

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, which has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
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 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.

#### **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 5th Floor, Liven House, 61–63 King Yip Street, Kwun Tong, Kowloon, Hong Kong, from 10 September 2007 for a period of 14 days up to 24 September 2007:

- (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 12 of this circular;
- (d) the letter from CIMB-GK, the text of which is set out on pages 13 to 17 of this circular;
- (e) the written consent of CIMB-GK referred to in the section headed “Expert” in this Appendix;
- (f) the Subscription Agreement with, amongst other things, drafts of the Option Agreement and Shareholders’ Agreement attached as schedules thereto; and
- (g) the directors’ service contracts referred to in the section “Service Contract” in this Appendix.

**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 Friday, 28 September, 2007 at 4:00 p.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT** the Subscription Agreement (“the Subscription Agreement”) dated 24 August 2007 between Fortune Sight Group Limited, Lee & Man Industries Company Limited and Well Boom International Limited for the subscription of 900 shares in the share capital of Fortune Sight Group Limited and the transactions contemplated thereunder (including, amongst other things, the entering into of a shareholders’ agreement (the “Shareholders’ Agreement”) between the same parties and the potential shareholders loan to be made 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 as they may in their opinion to be desirable or necessary in connection with the Subscription Agreement and/or the Shareholders’ Agreement including without limitation, settling, approving and executing one or more agreements in connection with the Subscription Agreement and/or the Shareholders’ 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*

10 September, 2007

**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 26th Floor, 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 Kwo Seng and Ms. Law Kar Shui, Elizabeth.*