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If you have sold or transferred all your shares in Lee & Man Paper Manufacturing Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, 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)

PROPOSED GRANT OF OPTIONS

A notice convening the extraordinary general meeting of the Company to be held at 5th Floor, Liven House, 61–63 King Yip Street, Kwun Tong, Kowloon, Hong Kong at 11:00 a.m. on Friday, 26 September 2008 (the “EGM”) is set out on pages 10 to 11 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, 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 EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

* for identification purposes only

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DEFINITIONS

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

“Articles”	means the articles of association of the Company
“associates”	bears the same meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	means Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“controlling shareholder”	bears the same meaning ascribed thereto in the Listing Rules
“Director(s)”	means director(s) of the Company or the board of directors of the Company, as the context may require
“EGM”	the extraordinary general meeting of the Company to be held at 5th Floor, Liven House, 61–63 King Yip Street, Kwun Tong, Kowloon, Hong Kong at 11:00 a.m. on 26 September 2008, to consider and, if thought fit, to approve the resolutions contained in the Notice
“Existing Options”	the share options, other than the Options, which were granted to the Directors and the employees of the Group under the Share Option Scheme up to the Latest Practicable Date
“Gold Best”	Gold Best Holdings Ltd., the holding company of the Company, incorporated with limited liability in the British Virgin Islands on 24 February 2003
“Grantees”	Mr Lee Man Chun Raymond and Mr Lee Man Bun, both executive Directors and the proposed grantees of the Options
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong Dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than the Grantees and their respective associates
“Latest Practicable Date”	means 5 September 2008, being the latest practicable date prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Net Profit”	for any financial year, means net profit of the Company after tax but excluding extraordinary items based on its audited consolidated income statement for that financial year
“Notice”	means the notice convening the EGM which is set out on pages 10 and 11 of this circular
“Options”	the options proposed to be granted to Mr Lee Man Chun Raymond and Mr Lee Man Bun under the Share Option Scheme to subscribe for 30,000,000 Shares and 20,000,000 Shares respectively as described herein, subject to approval by Independent Shareholders at the EGM
“Pre-IPO Share Options”	the options granted under the pre-IPO share option scheme adopted by the Company on 11 September 2003
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	means share(s) of par value of HK\$0.10 each in the capital of the Company
“Share Option Scheme”	means the share option scheme adopted by the Company on 11 September 2003
“Shareholder(s)”	means the holders of the Share(s)
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Subsidiary”	means a subsidiary undertaking within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) for the time being of the Company and “Subsidiaries” shall be construed accordingly

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
Law Kar Shui Elizabeth
Peter A Davies

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Office in

Hong Kong:

5th Floor, Liven House
61–63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

10 September 2008

To the Shareholders

Dear Sir or Madam,

PROPOSED GRANT OF OPTIONS

INTRODUCTION

Pursuant to the Share Option Scheme, the Board proposes to seek the Independent Shareholders' approval at the EGM on the grant of the Options to the Grantees to subscribe an aggregate of 50,000,000 Shares (representing approximately 4.40% of the issued capital of the Company as at the Latest Practicable Date) exercisable at the subscription price of HK\$7.488 per Share.

The purpose of this circular is to provide you with information in relation to the grant of the Options and the ordinary resolutions to be proposed at the EGM for the Independent Shareholders to approve the grant of the Options.

GRANT OF THE OPTIONS

On 5 September 2008, the Board resolved to grant, subject to approval by the Independent Shareholders, the Options to the Grantees, both executive Directors. Mr Lee Man Chun Raymond joined the Group in 1994 and is the chief executive officer in charge of corporate planning, investment profits projects and acquisition of heavy production machines. Mr Lee Man Bun joined the Group in 2003 and

* for identification purposes only

LETTER FROM THE BOARD

is the managing director of the Company responsible for production management, research and development, repair and maintenance of production machines and factory staff management. The grant of the Options was proposed in recognition of the Grantees' contributions to the growth of the Group in the past and as an incentive for their continuing commitment and contribution to the Group in the future.

The grant of the Options was approved by all the independent non-executive Directors on 5 September 2008 pursuant to Rule 17.04(1) of the Listing Rules. As the number of Shares which falls to be issued pursuant to the exercise of the Options in full to each of the Grantees exceeds 1% of the total issued share capital of the Company, the grant of the Options is subject to the approval by the Independent Shareholders with the Grantees and their respective associates abstaining from voting at the EGM pursuant to the notes to Rules 17.03(4) and 17.04(1) of the Listing Rules. As Gold Best, the Company's controlling shareholder, is controlled by Mr Lee Wan Keung Patrick, an executive Director and chairman of the Board, and not the Grantees, Gold Best is not an associate of each of the Grantees for the purpose of the Listing Rules and is entitled to vote at the EGM to approve the grant of the Options.

Terms of the Options

The Options, subject to the Independent Shareholders' approval at the EGM, will be granted in accordance with the terms of the Share Option Scheme and a summary of the principal terms of the Options are set out below:

(a) Duration, exercise period and performance targets

The life of the Options will be from the date of the grant of the Options up to 31 August 2013 and hence approximately 5 years. They will be exercisable by the Grantees from 1 September 2009 to 31 August 2013 upon the Group's attaining the following performance targets:

- (i) up to one-third of the Options (i.e. Options for an aggregate of 16,666,667 Shares) will be exercisable from 1 September 2009 to 31 August 2013 (both dates inclusive) if the Net Profit for the financial year ending 31 March 2009 equals or exceeds 108% of the Net Profit for the financial year ended 31 March 2008;
- (ii) up to two-thirds of the Options (i.e. Options for an aggregate of 33,333,333 Shares inclusive of any Options already exercised) will be exercisable from 1 September 2010 to 31 August 2013 (both dates inclusive) if the Net Profit for the financial year ending 31 March 2010 equals or exceeds 116% of the Net Profit for the financial year ended 31 March 2008;
- (iii) all of the Options (i.e. Options for an aggregate of 50,000,000 Shares) will be exercisable from 1 September 2011 to 31 August 2013 (both dates inclusive) if the Net Profit for the financial year ending 31 March 2011 equals or exceeds 124% of the Net Profit for the financial year ended 31 March 2008; and

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- (iv) to the extent any Options have not become exercisable by 1 September 2012 (i.e. Options for an aggregate of 50,000,000 Shares), they will be exercisable from 1 September 2012 to 31 August 2013 (both dates inclusive) if the Net Profit for the financial year ending 31 March 2012 equals or exceeds 132% of the Net Profit for the financial year ending 31 March 2008.

The Shares fall to be issued upon exercise of the Options shall rank *pari passu* with the Shares then existing in all respects, including the entitlement of receiving dividends and other distributions the record date for which is on or after the date of allotment and issue of those Shares. The Options themselves, however, do not carry any right to voting, dividend, transfer or other rights (including those arising on a liquidation of the Company) prior to their being exercised and the underlying Shares being issued.

(b) Subscription Price

In compliance with Rule 17.03(9) of the Listing Rule and the Share Option Scheme, the Options are exercisable at the subscription price of HK\$7.488 per Share, which is the highest of (i) HK\$0.1, being the nominal value of a Share; (ii) HK\$6.70, being the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of the grant of Options on 5 September 2008, and (iii) HK\$7.488, being the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange from 29 August 2008 to 4 September 2008, both dates inclusive (being the five trading days immediately preceding the date of the grant of Options).

(c) Reasons and consideration for the grant of the Options

The Options are granted, subject to the Independent Shareholders' approval, to the Grantees in recognition of their contributions to the growth of the Group in the past and as an incentive for their continuing commitment and contribution to the Group in the future. The consideration payable by each of Mr Lee Man Chun Raymond and Mr Lee Man Bun on acceptance of the Options will be HK\$1.00.

The Directors (including the independent non-executive Directors) consider that the terms of the Options are fair and reasonable.

Information on options granted under the Share Option Scheme

As at the Latest Practicable Date, Mr Lee Man Chun Raymond and Mr Lee Man Bun held 492,000 share options and 300,000 share options respectively. These options have a life of 3 years from the date of grant and are exercisable at any time during the period commencing on 1 January 2008 to 31 December 2010. There is no special condition or specific performance target to be fulfilled before these options could be exercised. Share options granted under the Share Option Scheme do not carry any right to voting, dividend, transfer or other rights (including those arising on a liquidation of the Company) prior to their being exercised and the underlying Shares being issued, and the Shares fall to be issued upon exercise of these options shall rank *pari passu* with the Shares then existing in all respects, including the entitlement of receiving dividends and other distributions the record date for which is on or after the date of allotment and issue of those Shares. All of these options are exercisable at the subscription price of HK\$15.10 per Share.

LETTER FROM THE BOARD

No options have been granted under the Pre-IPO share option scheme to the Grantees. For completeness, as disclosed in the Company's prospectus dated 16 September 2003 some of the Pre-IPO Share Options were granted to Gold Best which, as at the date of the prospectus, was wholly-owned by Newcourt Trustees Limited as trustee for The Fortune Star 1992 Trust, a trust with discretionary objects of which included Mr Lee Man Chun Raymond and Mr Lee Man Bun. The entire issued share capital of Gold Best have since then been transferred to, and is as at the Latest Practicable Date held by, Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond and Mr Lee Man Bun as to 51%, 29% and 21% respectively.

The 50,000,000 Shares to be issued upon exercise of the Options in full represent approximately 4.40% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 4.21% of the total issued share capital of the Company as enlarged by the full exercise of the Options (assuming no Existing Options and Pre-IPO Share Options outstanding as at the Latest Practicable Date have been exercised). Like other options granted under the Share Option Scheme, the Options do not carry any right to voting, dividend, transfer or other rights (including those arising on a liquidation of the Company) prior to their being exercised and the underlying Shares being issued, and the Shares fall to be issued upon exercise of the Options shall rank pari passu with the Shares then existing in all respects, including the entitlement of receiving dividends and other distributions the record date for which is on or after the date of allotment and issue of those Shares.

As at the Latest Practicable Date, options carrying the rights to subscribe for up to a total of 7,128,000 Shares and 75,000,000 Shares have been granted under the Share Option Scheme and the Pre-IPO share option scheme, respectively. Details of these options as at the Latest Practicable Date are as follows:

Number of underlying Shares of the options granted	Share Option Scheme	Pre-IPO share option scheme
Exercised	1,200,000	75,000,000
Cancelled	1,050,000	0
Outstanding	<u>4,878,000</u>	<u>0</u>
Total	<u><u>7,128,000</u></u>	<u><u>75,000,000</u></u>

Based on the number of Shares at the time of the listing of the Company and issued upon listing pursuant to the exercise of the over-allotment option, the maximum number of Shares which may be issued under the Share Option Scheme upon exercise of all options granted thereunder was 77,812,400. As of the Latest Practicable Date, options in respect of 7,128,000 Shares have been granted. Therefore, assuming that the grant of the Options is approved by the Independent Shareholders at the EGM and that no options granted under the Share Option Scheme or the Pre-IPO Share Options will be exercised from the Latest Practicable Date up to the date of the EGM, the Company may grant further options entitling the holders to subscribe for a total of 20,684,400 Shares after the EGM, representing approximately 1.82% of the total issued share capital of the Company as at the Latest Practicable Date.

On the basis of 1,137,380,412 Shares in issue as at the Latest Practicable Date (taking no account of the Shares to be issued upon the exercise of the options granted under the Share Option Scheme or the Pre-IPO Share Options and assuming no Shares will be issued or repurchased between the Latest Practicable Date and the date of the EGM), the 30% overall limit represents a total of 341,214,123

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Shares. Accordingly, the aggregate of (i) the 4,878,000 Shares falling to be issued upon exercise of the Existing Options, and (ii) the 50,000,000 Shares falling to be issued upon exercise of the Options will not exceed the 30% overall limit under the Share Option Scheme as at the Latest Practicable Date.

Subject to the approval by the Independent Shareholders at the EGM, the total number of Shares to be issued to the Grantees upon the exercise of the Options and the percentage of total issued share capital of the Company, both calculated based on the number of Shares in issue as at the Latest Practicable Date, is as follows:

Name of the Grantee	Capacity	No. of Options to be granted	Percentage of total no. of shares in issue	No. of options previously granted (Note 1)	No. of options exercised
Lee Man Chun Raymond	Executive Director	30,000,000	2.64%	492,000	—
Lee Man Bun	Executive Director	20,000,000	1.76%	300,000	—

Note:

- (1) Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond and Mr Lee Man Bun owns as to 51%, 29% and 20% of the issued share capital of Gold Best, respectively, which held (and has fully exercised) 61,000,000 Pre-IPO Share Options.

LETTER FROM THE BOARD

The following table illustrates the changes in the shareholdings of the Company upon the exercise in full of all the Options and the Existing Options (assuming no Shares are issued upon the exercise in full of the Pre-IPO Share Options):

Shareholders	As at the Latest Practicable Date		Upon exercise of the Options in full		Upon exercise of the Options and the Existing Options in full	
	<i>Number of Shares held</i>	<i>Approximate shareholding percentage</i>	<i>Number of Shares held</i>	<i>Approximate shareholding percentage</i>	<i>Number of Shares held</i>	<i>Approximate shareholding percentage</i>
Lee Man Chun Raymond (Note 1)	0	0%	30,000,000	2.53%	30,492,000	2.56%
Lee Man Bun (Note 1)	0	0%	20,000,000	1.68%	20,300,000	1.70%
Directors (other than the Grantees) (Note 2)	550,000	0.05%	550,000	0.05%	1,630,000	0.14%
Gold Best (Note 3)	715,661,200	62.92%	715,661,200	60.27%	715,661,200	60.03%
Other Shareholders	<u>421,169,212</u>	<u>37.03%</u>	<u>421,169,212</u>	<u>35.47%</u>	<u>424,175,212</u>	<u>35.57%</u>
Total:	<u>1,137,380,412</u>	<u>100%</u>	<u>1,187,380,412</u>	<u>100%</u>	<u>1,192,258,412</u>	<u>100%</u>

Notes:

- (1) These exclude the Shares and the pre-IPO Options held by Gold Best of which Mr Lee Man Chun, Raymond and Mr Lee Man Bun are shareholders.
- (2) The Directors other than Mr Lee Man Chun Raymond and Mr Lee Man Bun hold Existing Options exercisable into an aggregate of 1,080,000 Shares.
- (3) 715,661,200 Shares are held by Gold Best which is owned by Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond and Mr Lee Man Bun as to 51%, 29% and 21% respectively as at the Latest Practicable Date. Mr Lee Wan Keung Patrick, an executive Director and chairman of the Board, is the father of Mr Lee Man Chun Raymond and Mr Lee Man Bun.

EGM

The notice convening the EGM is set out on pages 10 to 11 of this circular. At the EGM, ordinary resolutions will be proposed to approve the grant of the Options to the Grantees by way of poll.

A form of proxy for use at the EGM is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority at the Company's branch share registrar in Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting if you so wish. As Gold Best is not an associate of any of the Grantees for the purpose of the Listing Rules, there are no Shareholders who are required to abstain from voting on the grant of the Options to the Grantees.

LETTER FROM THE BOARD

VOTING BY POLL

Pursuant to rule 17.04(2), the resolutions in respect of the grant of the Options to be put to the vote at the EGM shall be decided by way of poll, where votes may be given either personally or by proxy.

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 the omission of which would make any statement herein misleading.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the grant of the Options is in the interest of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the EGM.

Yours faithfully

By order of the board of

Lee & Man Paper Manufacturing Limited

Lee Wan Keung Patrick

Chairman and Executive Director

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 (the “EGM”) of the shareholders 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, 26 September 2008 at 11:00 a.m. to consider as special business, and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

“THAT:

- (a) the grant to Mr Lee Man Chun Raymond of the share options under the share option scheme of the Company adopted on 11 September 2003 (the “Share Option Scheme”) to subscribe for 30,000,000 ordinary shares of HK\$0.10 each (the “Shares”) at the subscription price of HK\$7.488 per Share, further information of which was set out in the circular of the Company dated 10 September 2008 (the “Circular”) be and is hereby approved; and
- (b) the grant to Mr Lee Man Bun of the share options under the Share Option Scheme to subscribe for 20,000,000 Shares at the subscription price of HK\$7.488 per Share, further information of which was set out in the Circular be and is hereby approved.”

By order of the board of
Lee & Man Paper Manufacturing Limited
Mr Cheung Kwok Keung
Company Secretary

Hong Kong, 10 September 2008

* for identification purposes only

NOTICE OF EXTRAORDINARY GENERAL MEETING

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, Ms Law Kar Shui, Elizabeth and Mr Peter A Davies.

Notes:

1. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead. Any member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM.
2. A proxy need not be a member of the Company. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.
3. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a Shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders 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 holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.
6. A form of proxy for use at the EGM is enclosed.