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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**

### **THE CHONGQING AGREEMENTS**

On 23 June 2014, Chongqing Paper, an indirect wholly-owned subsidiary of the Company, entered into the Chongqing Agreements with Chongqing Tissue. The Chongqing Agreements provide for, among the other things (1) the supply of pulp and other manufacturing materials by Chongqing Paper to Chongqing Tissue; (2) the provision of services to generate steam and electricity by Chongqing Paper to Chongqing Tissue; and (3) the leasing of dormitories and cars and the provision of staff canteen and wharf cargo handling services by Chongqing Paper to Chongqing Tissue.

Each of the Chongqing Agreements has a term commencing with effect from 23 June 2014 up to and including 31 December 2016.

Chongqing Tissue is ultimately wholly-owned by Mr Lee Wan Keung Patrick and his wife as at the date of this announcement. Mr Lee Wan Keung Patrick is the ultimate controlling shareholder of the Company as he indirectly holds approximately 54.2% of the total issued share capital of the Company as at the date of this announcement.

Chongqing Tissue is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules and the Chongqing Agreements will constitute continuing connected transactions of the Group.

### **LISTING RULE IMPLICATIONS**

The relevant percentage ratios under the Listing Rules for the Chongqing Agreements are, on an annual basis, more than 0.1% but less than 5%. Accordingly, the Chongqing Agreements, pursuant to Rule 14A.34 of the Listing Rules, are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

\* For identification purposes only

## **A. THE BACKGROUND**

### **The Chongqing Agreements**

On 23 June 2014, Chongqing Paper, an indirect wholly-owned subsidiary of the Company, entered into the Chongqing Agreements with Chongqing Tissue. The Chongqing Agreements provide for, among the other things (1) the supply of pulp and other manufacturing materials by Chongqing Paper to Chongqing Tissue; (2) the provision of services to generate steam and electricity by Chongqing Paper to Chongqing Tissue; and (3) the leasing of dormitories and cars and the provision of staff canteen and wharf cargo handling services by Chongqing Paper to Chongqing Tissue.

Each of the Chongqing Agreements has a term commencing with effect from 23 June 2014 up to and including 31 December 2016.

Chongqing Tissue is ultimately wholly-owned by Mr Lee Wan Keung Patrick and his wife as at the date of this announcement. Mr Lee Wan Keung Patrick is the ultimate controlling shareholder of the Company as he indirectly holds approximately 54.2% of the total issued share capital of the Company as at the date of this announcement.

Chongqing Tissue is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules and the Chongqing Agreements will constitute continuing connected transactions of the Group, further details of these agreements are set out below.

## **B. THE AGREEMENTS**

### **1. Finished Goods Agreement**

Date: 23 June 2014

Parties: (i) Chongqing Paper  
(ii) Chongqing Tissue

Nature of Transaction: Chongqing Paper will supply pulp and other manufacturing materials to Chongqing Tissue.

The price to be charged by Chongqing Paper in respect of the supply of pulp and the manufacturing materials to Chongqing Tissue shall be determined and be no less favourable to Chongqing Paper than those charged by Chongqing Paper to other independent third parties within the Chongqing area for supplying pulp and such manufacturing materials of similar type, amount, quality.

Term of Agreement: Term commencing with effect from 23 June 2014 till 31 December 2016.

Payment: The price to be charged for the supply of pulp and manufacturing materials will be paid by way of cash within 30 days after the month in which the supply is made but subject to the limits of the Finished Goods Annual Caps.

## **2. Steam and Electricity Agreement**

Date: 23 June 2014

Parties: (i) Chongqing Paper

(ii) Chongqing Tissue

Nature of Transaction: Chongqing Paper will provide services to Chongqing Tissue to generate steam and electricity.

The provision of services to generate steam and electricity shall be based on normal commercial terms and price. The price will be determined on the following basis:

Service fee of RMB25.641 per tonne of steam (exclusive of value-added tax)

Service fee of RMB0.0684 per kWh of electricity (exclusive of value-added tax)

The above fees were determined based on the actual production costs to be incurred plus a certain percentage annual return based on current market rates of return, subject to a minimum return of no less than 8% per annum.

The coal for generating the steam and electricity shall be supplied by Chongqing Tissue to Chongqing Paper in advance. The quantity of coal to be so supplied would depend on the actual consumption of Chongqing Tissue on a monthly basis.

Chongqing Tissue will provide the steam pipelines, electricity cables and relevant facilities to transfer steam and electricity to its production facilities. Chongqing Tissue will also be responsible for the maintenance and repairs of steam pipelines, electricity cables and relevant facilities.

Term of Agreement: Term commencing with effect from 23 June 2014 till 31 December 2016.

Payment: The steam and electricity service fees will be paid by way of cash within 14 days after the month in which the services are provided but subject to the limits of the Steam and Electricity Annual Caps.

### **3. Leasing and Services Agreement**

Date: 23 June 2014

Parties: (i) Chongqing Paper  
(ii) Chongqing Tissue

Nature of Transaction: Chongqing Paper will lease dormitories and cars and provide staff canteen and wharf cargo handling services to Chongqing Tissue.

The price to be charged by Chongqing Paper in respect of the leasing of dormitories, cars and staff canteen services shall be determined based on and be no less favourable to Chongqing Paper than the market rates charged by other third parties in the Yongchuan District of Chongqing with reference to the immediately preceding year and the CPI of the most recent year.

The price to be charged by Chongqing Paper in respect of the provision of wharf cargo handling services shall be comparable to and be no less favourable to Chongqing Paper than the market price charged by Chongqing Paper to other independent third parties for similar services.

Term of Agreement: Term commencing with effect from 23 June 2014 till 31 December 2016.

Payment: The rent for dormitories and cars and the fees for staff canteen and wharf cargo handling services will be paid by way of cash within 14 days after the month in which the rental and/or services are provided but subject to the limits of the Leasing and Services Annual Caps.

## C. ANNUAL CAPS

The Chongqing Annual Caps for each of the three financial years ending 31 December 2014, 2015 and 2016 (excluding value-added tax) will be as follows:

### Annual Caps

	<b>Year ending 31 December 2014</b>	<b>Amount Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
Finished Goods Annual Caps	RMB245,000,000 (approximately HK\$306,250,000)	RMB490,000,000 (approximately HK\$612,500,000)	RMB490,000,000 (approximately HK\$612,500,000)
Steam and Electricity Annual Caps	RMB9,000,000 (approximately HK\$11,250,000)	RMB18,000,000 (approximately HK\$22,500,000)	RMB18,000,000 (approximately HK\$22,500,000)
Leasing and Services Annual Caps	RMB8,000,000 (approximately HK\$10,000,000)	RMB8,000,000 (approximately HK\$10,000,000)	RMB8,000,000 (approximately HK\$10,000,000)

### Finished Goods Annual Caps

The Finished Goods Annual Caps has been determined by reference to: (i) the anticipated amount of transactions and price for pulp and the other manufacturing materials for the three financial years ending 31 December 2014, 2015 and 2016; and (ii) the supply plan of Chongqing Paper and the production plan and anticipated consumption requirements of Chongqing Tissue.

### Steam and Electricity Annual Caps

The Steam and Electricity Annual Caps has been determined by reference to (i) the anticipated amount of transactions and service fees to generate steam and electricity for the three financial years ending 31 December 2014, 2015 and 2016; (ii) the spare steam and electricity capacity of Chongqing Paper; (iii) the production plan and consumption requirements of Chongqing Tissue; and (iv) the unit price of steam and electricity services to be provided (which factors into account the operational costs for running the power generation station of steam and electricity).

### Leasing and Services Annual Caps

The Leasing and Services Annual Caps has been determined by reference to: (i) the anticipated amount of transactions and the price for leasing the dormitories and cars and the provision of staff canteen and wharf cargo handling services (taking into account the market price charged by Chongqing Paper to other independent third parties for similar services and, where appropriate, in similar regions) for the three financial years ending 31 December 2014, 2015 and 2016; and (ii) the supply plan for Chongqing Paper and the production plan and requirements of Chongqing Tissue and (iii) anticipated number of staff that will be using the services.

## **D. REASONS AND BENEFITS FOR THE TRANSACTIONS**

### **Finished Goods Agreement**

The Finished Goods Agreement was negotiated and agreed on an arms' length basis between Chongqing Paper and Chongqing Tissue based on normal commercial terms with reference to prevailing market rates.

Chongqing Paper currently produces pulp and other manufacturing materials and such materials are also supplied to third parties. The supply of such materials in excess of those required for the Group's own anticipated consumption requirement to Chongqing Tissue will enable the Group to generate income and increase the customer base for such materials.

### **Steam and Electricity Agreement**

The Steam and Electricity Agreement was negotiated and agreed on an arms' length basis between Chongqing Paper and Chongqing Tissue based on normal commercial terms with reference to prevailing market rates.

The supply of steam and electricity in excess of those required for the Group's own anticipated consumption requirement for supply to Chongqing Tissue will enable the Group to generate additional income. This arrangement will also improve the overall utilization of the steam and electricity generation station of the Group.

### **Leasing and Services Agreement**

The Leasing and Services Agreement was negotiated and agreed on an arms' length basis between Chongqing Paper and Chongqing Tissue based on normal commercial terms with reference to prevailing market rates. As such leased dormitories, cars, staff canteen and wharf cargo handling services are not currently being fully utilized by the Group, it is anticipated that the Leasing and Services Agreement will enable the Group to maximize its utilization of facilities and also generate additional income for the Group.

## **E. GENERAL**

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

Chongqing Tissue is principally engaged in the business of the manufacturing and sales of tissue paper.

Chongqing Tissue is ultimately wholly-owned by Mr Lee Wan Keung Patrick and his wife as at the date of this announcement. Mr Lee Wan Keung Patrick is the ultimate controlling shareholder of the Company as he indirectly holds approximately 54.2% of the total issued share capital of the Company as at the date of this announcement.

Accordingly, Chongqing Tissue is a connected person of the Company under Rule 14A.11 of the Listing Rules and the transactions under the Chongqing Agreements constitute continuing connected transactions under the Listing Rules. The Company does not hold any shares in Chongqing Tissue and vice versa as at the date of this announcement.

The Directors (including the independent non-executive Directors) are of the view that the Chongqing Agreements were made after arm's length negotiations and under normal commercial terms and the transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

No Director has a material interest in the Chongqing Agreements or is required to abstain from voting on the Board resolutions in relation to the same. Notwithstanding the above, each of Mr Lee Man Chun Raymond, Mr Lee Man Bun and Mr Li King Wai Ross have voluntarily abstained from voting on the relevant board resolutions approving the Chongqing Agreements to avoid any impression of there being a conflict of interest in the matters to be resolved.

## **F. IMPLICATIONS UNDER THE LISTING RULES**

The relevant percentage ratios under the Listing Rules for the Chongqing Agreements are, on an annual basis, more than 0.1% but less than 5%. Accordingly, the Chongqing Agreements, pursuant to Rule 14A.34 of the Listing Rules, are each only subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **G. DEFINITIONS**

The following defined terms are used in this announcement:

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chongqing Agreements”	the Finished Goods Agreement, the Steam and Electricity Agreement and the Leasing and Services Agreement
“Chongqing Paper”	Chongqing Lee & Man Paper Manufacturing Limited, a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Chongqing Tissue”	Chongqing Lee & Man Tissue Manufacturing Limited, a company established in the PRC and a connected person of the Company

“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“CPI”	the consumer price index published by the National Bureau of Statistics of the PRC
“Director(s)”	the director(s) of the Company
“Finished Goods Agreement”	the agreement dated 23 June 2014 between Chongqing Paper and Chongqing Tissue in relation to the supply of pulp and other manufacturing materials by Chongqing Paper to Chongqing Tissue
“Finished Goods Annual Caps”	the maximum annual consideration to be paid or received under the Finished Goods Agreement for each of the three financial years ending 31 December 2014, 2015 and 2016, details of which are set out in this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“kWh”	unit of electricity, i.e. kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“Leasing and Services Agreement”	the agreement dated 23 June 2014 entered into between Chongqing Paper and Chongqing Tissue for the lease of dormitories and cars and the provision of staff canteen and wharf cargo handling services by Chongqing Paper to Chongqing Tissue
“Leasing and Services Annual Caps”	the maximum annual consideration to be paid or received under the Leasing and Services Agreement for each of the three financial years ending 31 December 2014, 2015 and 2016, details of which are set out in this announcement
“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 PRC



“Shareholder(s)”	the holder(s) of shares of the Company
“Steam and Electricity Agreement”	the agreement dated 23 June 2014 entered into between Chongqing Paper and Chongqing Tissue for providing services to generate steam and electricity by Chongqing Paper to Chongqing Tissue
“Steam and Electricity Annual Caps”	the maximum annual consideration to be paid or received under the Steam and Electricity Agreement for each of the three financial years ending 31 December 2014, 2015 and 2016, details of which are set out in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

*For illustration purposes only the exchange rate of RMB1 = HK\$1.25 has been adopted for translating RMB into HK\$ in this announcement.*

By order of the Board  
**Lee & Man Paper Manufacturing Limited**  
**Lee Man Chun Raymond**  
*Chairman*

23 June 2014

*As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Mr Lee Man Chun Raymond, Mr Lee Man Bun, Mr Kunihiko Kashima and Mr Li King Wai Ross, two non-executive directors, namely Professor Poon Chung Kwong and Mr Yoshio Haga, and three independent non-executive directors, namely Mr Wong Kai Tung Tony, Mr Peter A Davies and Mr Chau Shing Yim David.*