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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

2017 DONGGUAN AGREEMENTS

On 10 February 2017, the 2017 Dongguan Finished Goods Agreement and the 2017 Dongguan Steam and Electricity Agreement were entered into between the Group and the Lee & Man Manufacturing Group.

Under the 2017 Dongguan Finished Goods Agreement, the Group will from time to time supply finished goods (such as test liners and corrugated medium paper) to Lee & Man Manufacturing Group for manufacturing corrugated paper packaging products in the PRC; and the Lee & Man Manufacturing Group will from time to time supply waste paper by-products and other manufacturing materials to the Group for manufacturing paper products. Under the 2017 Dongguan Steam and Electricity Agreement, the Group will supply steam and electricity to Lee & Man Manufacturing Group. These transactions are the continuation of the same transactions under the Existing Dongguan Agreements and the 2017 Dongguan Agreements have a term commencing with effect from 1 January 2017 up to and including 31 December 2019.

As the relevant percentage ratios under the Listing Rules for the Aggregate Annual Caps are, on an annual basis, more than 0.1% but less than 5%, the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement are only subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules. The relevant percentage ratios under the Listing Rules for the annual caps for the 2017 Dongguan Finished Goods Agreement are, on an annual basis, more than 0.1% but less than 5%. Accordingly, the 2017 Dongguan Finished Goods Agreement is only subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purposes only

A. THE BACKGROUND

On 20 March 2014, Dongguan Lee & Man, an indirect wholly-owned subsidiary of the Company, entered into the Existing Dongguan Agreements with Lee & Man Manufacturing, which expired on 31 December 2016.

On 10 February 2017, the 2017 Dongguan Finished Goods Agreement and the 2017 Dongguan Steam and Electricity Agreement were entered into between the Group and Lee & Man Manufacturing Group. Each of the 2017 Dongguan Agreements has a term of three years commencing with effect from 1 January 2017 up to and including 31 December 2019. The Company confirms that the respective aggregate transaction amounts under each of the 2017 Dongguan Agreements incurred during the period from 1 January 2017 up to the date of those agreements is below the de minimis threshold set out in Chapter 14A of the Listing Rules.

The 2017 Dongguan Agreements constitute continuing connected transactions of the Group and further details of these agreements are set out below.

B. THE 2017 DONGGUAN AGREEMENTS

1. 2017 Dongguan Finished Goods Agreement

Date: 10 February 2017

Parties: (i) Dongguan Lee & Man (an indirect wholly-owned subsidiary of the Company)

(ii) Lee & Man Manufacturing (an indirect wholly-owned subsidiary of a daughter of Mr Lee Wan Keung Patrick)

Nature of Transaction: Dongguan Lee & Man (or any other member of the Group) will from time to time supply finished goods (such as test liners and corrugated medium paper) to the Lee & Man Manufacturing Group for manufacturing of corrugated paper packaging products in the PRC and the Lee & Man Manufacturing Group will from time to time supply waste paper by-products and other manufacturing materials to Dongguan Lee & Man (or any other member of the Group) for manufacturing of paper products.

Pricing Policy: The prices to be charged by the Group in respect of the supply of finished goods are to be determined by reference to such prices chargeable by the Group to other independent customers in respect of similar products. The staff of Dongguan Lee & Man will review pricing on a monthly basis to ensure that the Group charges such price as is no more favourable to Lee & Man Manufacturing Group than it charges independent parties having taken into account (amongst other things) factors such as the order size.

The prices to be charged to the Group in respect of its purchase of waste paper by-products and other manufacturing materials will be determined by reference to the prevailing market prices at the relevant time in respect of comparable products which will be determined by the management staff of the Lee & Man Manufacturing Group provided that the prices the Lee & Man Manufacturing Group charges the Group shall be no higher than that available to the Group from independent third party suppliers in respect of similar products. The management staff of Dongguan Lee & Man will monitor and take samples of the market prices for similar products available from independent third party suppliers on a monthly basis to ensure adherence by the Lee & Man Manufacturing Group to the pricing policy.

Term of Agreement: 3 years commencing from 1 January 2017 till 31 December 2019.

Payment: The price to be charged for finished goods, waste paper by-products and other manufacturing materials will be paid in cash or by way of cheque within 30 days after the month in which the supply is made based on actual supply but subject to the limits of the New Annual Caps.

2. 2017 Dongguan Steam and Electricity Agreement

Date: 10 February 2017

Parties: (i) Dongguan Lee & Man
(ii) Lee & Man Manufacturing

Nature of Transaction: the Group will supply steam and electricity to Lee & Man Manufacturing Group at a monthly fee based on actual usage at the rate determined as described below, subject to a maximum monthly fee of HK\$666,666.

Pricing Policy:	Under the 2017 Dongguan Steam and Electricity Agreement, the steam and electricity service fees were based on the actual supply costs (including operating and financing costs of the electricity and steam generation facilities of Dongguan Lee & Man, plus a margin of not more than 5%).
Term of Agreement:	3 years commencing from 1 January 2017 till 31 December 2019.
Payment:	The steam and electricity charges will be paid in cash or by way of cheque by Lee & Man Manufacturing Group within 30 days after the month in which the supply is made based on actual consumption of the amount of steam and electricity but subject to the limits of the New Annual Caps.

Considering the pricing policies as outlined above and that the respective transactions contemplated under the 2017 Dongguan Agreements will be subject to annual review by the independent non-executive Directors and the auditors of the Company, the Directors (including the independent non-executive Directors) believe that the pricing determination procedures outlined above are sufficient to ensure that the respective transactions contemplated under the 2017 Dongguan Agreements will be conducted on normal commercial terms or better and not prejudicial to the interests of the Company and its minority Shareholders.

C. HISTORICAL AMOUNTS UNDER THE EXISTING DONGGUAN AGREEMENTS

The actual consideration paid under the Existing Dongguan Agreements during the three years ended 31 December 2014, 2015 and 2016 are set out below.

Transaction	Year ended 31 December 2014 (HK\$'000)	Year ended 31 December 2015 (HK\$'000)	Year ended 31 December 2016 (HK\$'000)
		Actual consideration	
Supply of finished goods by the Group to the Lee & Man Manufacturing Group	46,351	54,890	78,989
	200,000	Annual cap 200,000	200,000
		Actual consideration	
Purchase of waste paper by-products from the Lee & Man Manufacturing Group by the Group	7,733	1,780	1,914
	30,000	Annual cap 30,000	30,000
		Actual consideration	
Supply of steam and electricity by the Group to the Lee & Man Manufacturing Group	2,974	2,748	2,770
	10,000	Annual cap 10,000	10,000

D. NEW ANNUAL CAPS

The Company proposes that the New Annual Caps for each of the three financial years ending 31 December 2017, 2018 and 2019 be as follows:

Type of Transaction	Year ending 31 December 2017 (HK\$'000)	Year ending 31 December 2018 (HK\$'000)	Year ending 31 December 2019 (HK\$'000)
	New Annual Caps		
Supply of finished goods by the Group to the Lee & Man Manufacturing Group	200,000	200,000	200,000
Purchase of waste paper by-products and other manufacturing materials from the Lee & Man Manufacturing Group by the Group	20,000	20,000	20,000
Supply of steam and electricity by the Group to Lee & Man Manufacturing Group	8,000	8,000	8,000

Further Information on the New Annual Caps

Supply of finished goods by the Group to the Lee & Man Manufacturing Group

The relevant annual caps for the supply of finished goods by the Group to Lee & Man Manufacturing Group have been determined by reference to: (i) the amount of historical transactions between the Group and Lee & Man Manufacturing Group for the three financial years ended 31 December 2014, 2015 and 2016; (ii) the anticipated volume of transactions and price for the finished goods for the next three financial years ending 31 December 2017, 2018 and 2019 (taking into account the market price currently charged to independent third parties under normal commercial terms for similar products (where possible, in the same region)); (iii) anticipated increase in the costs of fuel (in particular, coal) and raw materials required for the finished goods and (iv) the supply plan for the Group and the production plan and requirements of Lee & Man Manufacturing Group.

Purchase of waste paper by products and other manufacturing materials from Lee & Man Manufacturing Group by Dongguan Lee & Man (or any other member of the Group)

The relevant annual caps for the purchase of waste paper by products and other manufacturing materials from Lee & Man Manufacturing Group by the Group have been determined by reference to (i) the amount of historical transactions between the Group and Lee & Man Manufacturing Group for the three financial years ended 31 December 2014, 2015 and 2016 and anticipated new transactions involving other manufacturing materials; (ii) the anticipated volume of transactions and price for the waste paper by-products and other manufacturing materials for the next three financial years ending 31 December 2017, 2018 and 2019 (taking into account the market price currently charged to independent third parties under normal commercial terms for similar products (where possible, in the same region)); and (iii) the waste paper by-products and other manufacturing materials anticipated to be generated by Lee & Man Manufacturing Group and the production plan and requirements of the Group.

Supply of steam and electricity by the Group to Lee & Man Manufacturing Group

The relevant annual caps for the supply of steam and electricity by the Group to Lee & Man Manufacturing Group have been determined by reference to: (i) the amount of historical transactions between the Group and Lee & Man Manufacturing and its group for the three financial years ended 31 December 2014, 2015 and 2016; (ii) the anticipated volume of transactions and charges for steam and electricity for the next three financial years ending 31 December 2017, 2018 and 2019; (iii) anticipated increase in the costs of fuel (in particular, coal) and the availability of electricity and steam capacity of the Group and (iv) the production plan and requirements of Lee & Man Manufacturing and its group.

In determining the New Annual Caps, the Group has also taken into account the assumption that during the respective terms of the 2017 Dongguan Agreements, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group and/or the Lee & Man Manufacturing Group.

E. REASONS AND BENEFITS FOR ENTERING INTO THE 2017 DONGGUAN AGREEMENTS

Lee & Man Manufacturing is principally engaged in the manufacturing of corrugated paper packaging products in the PRC. The 2017 Dongguan Agreements have been negotiated and agreed on an arms' length basis between the Group and Lee & Man Manufacturing based on normal commercial terms. The terms of the 2017 Dongguan Agreements (in terms of pricing policies and payment policies) are substantially similar to those under the Existing Dongguan Agreements. Supplying steam and electricity in excess of its own anticipated requirements to Lee & Man Manufacturing Group will enable the Group to generate additional income. The purchase of waste paper by-products and other manufacturing materials from Lee & Man Manufacturing Group will enable the Group to secure a steady supply source of such products on normal commercial terms.

The Directors (including the independent non-executive Directors) are of the view that the 2017 Dongguan Agreements are entered into after arm's length negotiations and on normal commercial terms (although the supply of electricity and steam under the 2017 Dongguan Steam and Electricity Agreement is not in the Group's ordinary course of business) and that the transactions thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

F. GENERAL

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

Lee & Man Manufacturing is wholly-owned by the spouse of Mr Li King Wai Ross (a Director) who is also a daughter of Mr Lee Wan Keung Patrick and is therefore an associate of Mr Lee Wan Keung Patrick. Mr Lee Wan Keung Patrick is the ultimate controlling shareholder of the Company and indirectly holds approximately 55.9% of the total issued share capital of the Company as at the date of this announcement. Accordingly, the transactions under the 2017 Dongguan Agreements constitute continuing connected transactions under the Listing Rules. The Company does not hold any shares in Lee & Man Manufacturing and vice versa as at the date of this announcement.

Dr Lee Man Chun Raymond and Mr Lee Man Bun, executive Directors who are associates of Mr Lee Wan Keung Patrick, have abstained from voting on the relevant board resolution approving the 2017 Dongguan Agreements and the transactions contemplated thereunder. Save as aforesaid, no Director has any material interest in the 2017 Dongguan Agreements and the transactions contemplated respectively thereunder. However, Mr Li King Wai Ross, an executive Director of the Company and son-in-law of Mr Lee Wan Keung Patrick, has voluntarily abstained from voting on the relevant board resolution approving the 2017 Dongguan Agreements and the transactions contemplated thereunder to avoid the perception of conflict of interest.

G. IMPLICATIONS UNDER THE LISTING RULES

Under the Listing Rules, the transactions under the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement would be aggregated as the services (steam and electricity) to be provided and the parties, are the same or are otherwise associated under the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement.

The 2017 Dongguan Finished Goods Agreement would be treated separately and would not be aggregated with the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement, as the Directors consider that the transactions contemplated under the 2017 Dongguan Finished Goods Agreement are distinctly separate and different in nature from the transactions contemplated under the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement.

As the relevant percentage ratios under the Listing Rules for the Aggregated Annual Caps are, on an annual basis, more than 0.1% but less than 5%, the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement, pursuant to Rule 14A.76 of the Listing Rules, are only subject to the reporting and announcement requirements and are exempted from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The relevant percentage ratios under the Listing Rules for the annual caps for the 2017 Dongguan Finished Goods Agreement are, on an annual basis, more than 0.1% but less than 5%. Accordingly, the 2017 Dongguan Finished Goods Agreement, pursuant to Rule 14A.76 of the Listing Rules, are only subject to the reporting and announcement requirements and are exempted from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

H. DEFINITIONS

The following defined terms are used in this announcement:

“2017 Dongguan Agreements”	the 2017 Dongguan Finished Goods Agreement and the 2017 Dongguan Steam and Electricity Agreement
“2017 Dongguan Finished Goods Agreement”	the agreement dated 10 February 2017 entered into between Dongguan Lee & Man and Lee & Man Manufacturing for the supply of finished goods to Lee & Man Manufacturing and the supply of waste paper by-products and other manufacturing materials to Dongguan Lee & Man
“2017 Dongguan Steam and Electricity Agreement”	the agreement dated 10 February 2017 entered into between Dongguan Lee & Man and Lee & Man Manufacturing for the supply of steam and electricity to Lee & Man Manufacturing
“Aggregated Annual Caps”	the aggregated annual caps under of the Existing Jiangsu Steam and Electricity Agreement and the 2017 Dongguan Steam and Electricity Agreement
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dongguan Lee & Man”	Dongguan Lee & Man Paper Factory Co., Ltd., a foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
“Existing Dongguan Agreements”	a finished goods and waste-paper by-products supply agreement and a steam and electricity agreement both dated 20 March 2014 entered into between Dongguan Lee & Man and Lee & Man Manufacturing, details of which are set out in the Company’s announcement dated 20 March 2014

“Existing Jiangsu Steam and Electricity Agreement”	the agreement dated 9 February 2015 between Jiangsu Paper and Jiangsu Chemical in relation to the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical, details of which are set out in the Company’s announcement dated 9 February 2015
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Jiangsu Chemical”	Jiangsu Lee & Man Chemical Limited, a wholly foreign-owned enterprise established in the PRC and an associate of Mr Lee Wan Keung Patrick
“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited, a foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
“Lee & Man Manufacturing”	Lee & Man Industrial Manufacturing Limited, a company incorporated in the Cayman Islands, and an indirect wholly-owned company of a daughter of Mr Lee Wan Keung Patrick
“Lee & Man Manufacturing Group”	Lee & Man Manufacturing and/or its subsidiaries, as the case maybe
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Annual Caps”	the annual caps for: <ul style="list-style-type: none"> (1) the supply of finished goods by the Group to the Lee & Man Manufacturing Group; (2) the purchase of waste paper by-products and other manufacturing materials by the Group from the Lee & Man Manufacturing Group; under the 2017 Dongguan Finished Goods Agreement; and <ul style="list-style-type: none"> (3) the supply of steam and electricity by the Group to the Lee & Man Manufacturing Group

under the 2017 Dongguan Steam and Electricity Agreement, for each of the three financial years ending 31 December 2017, 2018 and 2019, details of which are set out in this announcement

“PRC”	the People’s Republic of China
“Shareholder(s)”	the holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

10 February 2017

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