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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 Group has certain business relationships with Lee & Man Manufacturing, which constitute Continuing Connected Transactions of the Company. Certain of such business relationships have taken place since the Company's listing on the Stock Exchange in the year 2003 and the Group has obtained the Existing Waiver in respect of such Continuing Connected Transactions which exempts the Company from strict compliance with disclosure and where applicable, independent shareholders' approval requirements under the Listing Rules. The Existing Waiver expired on 31 March 2006. The Directors expect such business relationships to continue and accordingly the Company has entered into the New Business Services Agreements on 25 August 2006 for such Continuing Connected Transactions. Set out in this Announcement is further information in relation to the Continuing Connected Transactions.

The New Business Services Agreements include the New Finished Goods Agreement and the New Steam Agreement.

As both the New Finished Goods Agreement and the New Steam Agreement involve the supply of finished goods or steam to Lee & Man Manufacturing, a connected person, their Annual Caps for each year are aggregated for the purposes of considering whether the transactions contemplated thereunder require independent shareholders' approval. As the Annual Caps for the New Finished Goods Agreement and the New Steam Agreement in aggregate is equal to more than 2.5% and is less than 25% of the applicable percentage ratios in respect of the Company and is greater than HK\$10,000,000, the New Finished Goods Agreement and the New Steam Agreement and their respective Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Lee & Man Manufacturing is wholly owned by Mr. Lee Wan Keung, the chairman of the Company and a Director. Mr. Lee Wan Keung and his associates will abstain from voting at the EGM of the Company to be convened for this purpose. The votes of the Independent Shareholders in the EGM will be taken by poll.

A circular containing, among other things, details of the New Finished Goods Agreement and the New Steam Agreement, a letter from the Independent Board Committee to the Independent Shareholders, a letter of advice from CIMB-GK Securities (HK) Limited to the Independent Board Committee and Independent Shareholders and a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

A. BACKGROUND

The Group is a large-scale paper manufacturer and specializes in the production of linerboard and corrugating medium. The Group has certain business relationships with Lee & Man Manufacturing, which is wholly-owned by Mr. Lee Wan Keung, Patrick, the chairman of the Company and a Director, which constitute Continuing Connected Transactions of the Company. The principal business of Lee & Man Manufacturing is in the manufacturing of corrugated paper packaging products in the PRC. The Group is able to provide steam and finished goods to Lee & Man Manufacturing which are not in the same line of business or which do not operate in the areas in which the Group has its core operations.

The business relationships between the Group and Lee & Man Manufacturing have taken place since the Company's listing on the Stock Exchange in the year 2003. Under the listing rules of the Stock Exchange in force at that time, such Continuing Connected Transactions were subject to reporting and announcement requirements and, where applicable, Independent Shareholders' approval. As the continuing connected

* For identification purposes only

transactions are essential for the continued operation and growth of the business of the Group, it was impractical for the Group to operate its business effectively if the Company is required to make disclosures and where necessary, to obtain Independent Shareholders' approval, before entering into such transactions. Accordingly, the Group obtained the Existing Waiver dated 26 September 2003 in respect of certain continuing connected transactions of the Group. The Existing Waiver exempts the Group from full compliance with the Listing Rules in respect of such Continuing Connected Transactions. The Existing Waiver expired on 31 March 2006. The Directors intend that such business relationships continue and accordingly, the Company has entered into the New Business Services Agreements for such Continuing Connected Transactions. The New Business Services Agreements include the New Finished Goods Agreement and the New Steam Agreement. Set out in this announcement is further information in relation to the Continuing Connected Transactions.

B. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS WHICH REQUIRE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL

Set out below is a summary of the Continuing Connected Transactions:

Transactions with Connected Persons under the New Finished Goods Agreements and the New Steam Agreement

Type of Transaction	Nature of Transaction
<i>New Finished Goods Agreement</i>	
Supply of finished goods by Dongguan Lee & Man to Lee & Man Manufacturing	The New Finished Goods Agreement dated 25 August 2006 is for a term of three years commencing from 1 April 2006 till 31 March 2009 pursuant to which Dongguan Lee & Man from time to time supplies finished goods such as test liners and corrugated medium paper to Lee & Man Manufacturing for manufacturing corrugated paper packaging products in the PRC.
<i>New Steam Agreement</i>	
Supply of steam by Dongguan Lee & Man to Lee & Man Manufacturing	Under the New Steam Agreement dated 25 August 2006, Dongguan Lee & Man will supply steam to Lee & Man Manufacturing at a monthly fee of HK\$130,000, subject to adjustments (taking into account any changes in actual usage of steam) as may be mutually agreed between the parties. The term of the New Steam Agreement is for three years commencing on 1 April 2006 till 31 March 2009.

To comply with the requirements of the Listing Rules, Dongguan Lee & Man has entered into the New Finished Goods Agreement and the New Steam Agreement.

Under the New Finished Goods Agreement, the price to be charged by the Group in respect of the supply of finished goods shall not be lower than the market price charged to independent third parties under normal commercial terms for similar products (where possible, in the same region). If there is no such market price, the price to be charged by the Group shall not be lower than the price charged against other third parties for similar services or products. The New Finished Goods Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

Under the New Steam Agreement, the steam fee charges were based on the estimated monthly coal consumption and overheads of the Group. The steam fee charges will be paid by cash by Lee & Man Manufacturing. The New Steam Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

The aggregate consideration received by the Group from Lee & Man Manufacturing for finished goods or steam supplied to Lee & Man Manufacturing for each of the financial years ended 31 March 2004, 2005 and 2006 were as follows:

Type of Transaction	2004	Amount (HK\$) 2005	2006
1. Supply of finished good	79,767,000	84,229,000	122,018,000
Annual cap in respect of supply of finished goods under the Existing Waiver	105,000,000	120,000,000	138,000,000
2. Supply of steam	1,560,000	1,560,000	1,560,000
Annual cap in respect of supply of steam under the Existing Waiver	<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>

Note: Under the Existing Waiver, the annual cap in relation to the supply of steam is the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the relevant year-end.

The revenue ratio in respect of the transactions which fall under the New Finished Goods Agreement and the New Steam Agreement in aggregate has exceeded 0.1% on April 2006 and in accordance with Rule 14A.34, the reporting and announcement requirements under Rules 14A.45 to 14A.47 has been triggered. A transaction in respect of the provision of finished goods involves the making/receiving of an order for the finished goods, providing a quotation and then invoicing the price for such order, delivery, clearance with the relevant custom requirements and confirmation of acceptance. This process (including the recording of the transaction in the accounts of the Company) normally takes approximately 2 months. Upon the expiry of the Existing Waiver, the Company required the full 2006 transaction figures as well as its production figures to assist with the projections on the output and allocation the Company can make in relation to its provision of finished goods. In addition, the Group also needs additional time to finalise its projections taking into account of the recent expansion of the Company with its increase in production lines. Accordingly, the Company did not make any announcement until this Announcement (when the projections, the New Finished Goods Agreement and the New Steam Agreement were finalised). From the expiry of the Existing Waiver on 31 March 2006 and up to the date of this announcement, the Company confirms that the percentage ratios in respect of the aggregate value of the transactions which fall under the New Finished Goods Agreement and the New Steam Agreement were less than 2.5% .

C. THE ANNUAL CAPS

The Company proposes that the maximum aggregate annual consideration to be received or paid by the Group in respect of New Finished Goods Agreement and the New Steam Agreement set out above will not exceed the respective cap amounts (in respect of which Independent Shareholders approval is proposed to be sought at the EGM) as shown in the table below for each of the three financial years ending 31 March 2007, 2008 and 2009:

Type of Transaction	Amount (HK\$)		
	Year ending 31 March 2007	Year ending 31 March 2008	Year ending 31 March 2009
Supply of finished goods by Dongguan Lee & Man to Lee & Man Manufacturing (<i>Note 1</i>)	166 million	184 million	195 million
Supply of steam by Dongguan Lee & Man to Lee & Man Manufacturing (<i>Note 2</i>)	1,560,000	1,560,000	1,560,000

Note 1: The relevant caps have been determined by reference to (i) the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2004, 2005 and 2006; (ii) the plans and requirements of Lee & Man Manufacturing and the ability of the Group to meet the requirements of Lee & Man Manufacturing given the expansion of the scale of production of the Group (as described in the announcement of the Company dated 30 March 2006, the Group has acquired additional paper machines which is expected to increase the Group's annual capacity from 1,600,000 metric tons to approximately 3,030,000 metric tons). As the production capacity of the Group increases, the Group will be able to produce more to meet the requirements of its customers. Given that the prices to be paid to the Group by Lee & Man Manufacturing are not lower than the market price charged to independent third parties under normal commercial terms for similar products, the increase in the Annual Caps in respect of the supply of finished goods will allow the Group to further utilise its production facilities whilst obtaining a return for such supply; and (iii) the increase in costs of the raw materials required for the finished goods.

Note 2: The relevant caps have been determined by reference to the amount and value of historical transactions between the Group and Lee & Man Manufacturing for the three financial years ended 31 March 2004, 2005 and 2006.

D. LISTING RULES COMPLIANCE IN RESPECT OF THE CONTINUING CONNECTED TRANSACTIONS REQUIRING SHAREHOLDERS' APPROVAL

As certain of the percentage ratios in respect of the above Continuing Connected Transactions Requiring Shareholders Approval on an annual and aggregated basis exceed 2.5%, the above Continuing Connected Transactions will constitute "non-exempt continuing connected transactions" of the Company under the Listing Rules requiring the approval of Independent Shareholders. Accordingly, Independent Shareholders' approval are proposed to be sought in respect of the Continuing Connected Transactions subject to the following conditions:-

- (A) the Continuing Connected Transactions will be:-
- (i) entered into in the ordinary and usual course of business of the Company;
 - (ii) conducted on normal commercial terms or, if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available to or from independent third parties as appropriate; and

- (iii) entered into in accordance with the relevant terms and conditions governing them which are fair and reasonable so far as the Shareholders are concerned and in the interest of the Company and its shareholders as a whole;
- (B) the value of the Continuing Connected Transactions shall not exceed the caps set out above for each of the three years ending 31 March 2007, 31 March 2008 and 31 March 2009 respectively;
- (C) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of any of the Continuing Connected Transactions exceeds the relevant caps, or that there are any material amendment to the terms of the agreements in respect of the Continuing Connected Transactions.

The Company will comply with the relevant continuing obligations required under the Listing Rules in respect of its continuing connected transactions.

E. REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is a large-scale paper manufacturer and specializes in the production of linerboard and corrugating medium. The Continuing Connected Transactions have taken place since the Company's listing on the Stock Exchange in the year 2003 and are essential for the continued operation and growth of the business of the Group. The Group is also able to provide steam and finished goods to Lee & Man Manufacturing who is not in the same line of business or who do not operate in the areas in which the Group has its core operations.

The New Business Services Agreements have been negotiated and agreed on at arms' length basis between the Group and Lee & Man Manufacturing based on normal commercial terms. The terms of the New Business Services Agreements (in terms of pricing policies and payment policies) are substantially the same as the terms of the transactions under the Existing Waiver. The Directors (including the independent non-executive Directors who have formed a preliminary view) consider the terms of the New Finished Goods Agreement and New Steam Agreement to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. The formal advice and recommendation to the shareholders by the independent non-executive Directors will be included in the circular to the Shareholders after they have received advice from the Independent Financial Adviser.

F. GENERAL

Since Lee & Man Manufacturing is indirectly wholly owned by Mr. Lee Wan Keung, Patrick, the provision by the Group of finished goods or steam (as the case may be) under the New Business Services Agreements constitute continuing connected transactions of the Company under the Listing Rules.

The New Business Services Agreements include the New Finished Goods Agreement and the New Steam Agreement.

As both the New Finished Goods Agreement and the New Steam Agreement involve the supply of materials or steam to Lee & Man Manufacturing, a connected person, their Annual Caps for each year are aggregated for the purposes of considering whether the transactions contemplated thereunder require independent shareholders' approval. The Annual Caps for the New Finished Goods Agreement and the New Steam Agreement, as their Annual Caps in aggregate is equal to more than 2.5% and is less than 25% of the applicable percentage ratios in respect of the Company and is greater than HK\$10,000,000, and accordingly the New Finished Goods Agreement and the New Steam Agreement and their respective Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Lee & Man Manufacturing is wholly owned by Mr. Lee Wan Keung, Patrick, the chairman of the Company and a Director. Apart from the New Business Services Agreements, the Company has confirmation from Mr. Lee Wan Keung, Patrick, that he and his associates do not have any other transactions with the Group that are subsisting and are subject to aggregation pursuant to Rules 14A.25 to 14A.27 of the Listing Rules with the New Business Services Agreements. Mr. Lee Wan Keung, Patrick, and his associates will abstain from voting at the EGM of the Company to be convened for this purpose. The votes of the Independent Shareholders in the EGM will be taken by poll.

An Independent Board Committee will be constituted to make recommendations to the Independent Shareholders in respect of the resolution to approve the New Finished Goods Agreement and the New Steam Agreement and their respective Annual Caps. CIMB-GK Securities (HK) Limited has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the New Finished Goods Agreement and the New Steam Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole and whether each of the Annual Caps is fair and reasonable.

A circular containing, among other things, details of the New Finished Goods Agreement and the New Steam Agreement, a letter from the Independent Board Committee to the Independent Shareholders, a letter of advice from CIMB-GK Securities (HK) Limited to the Independent Board Committee and Independent Shareholders and a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

G. DEFINITIONS

The following defined terms are used in this announcement:

“Annual Caps”	the maximum annual consideration to be paid or received (as the case may be) by the Group to Lee & Man Manufacturing for materials and/or to be supplied to Lee & Man Manufacturing for each of the three financial years ending 31 March 2007, 2008 and 2009 details of which are set out in Section B in this Announcement;
“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;
“Continuing Connected Transactions”	the continuing connected transactions between the Group and Lee & Man Manufacturing, which is wholly owned by Mr. Lee Wan Keung, Patrick, which constitute continuing connected transactions of the Company which require reporting, announcement and Independent Shareholders’ approval;
“Director(s)”	the director(s) of the Company;
“Dongguan Lee & Man”	Dongguan Lee & Man Paper Factory Co., Ltd., a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the New Business Services Agreements, the transactions contemplated thereunder and each of the Annual Caps;
“Existing Waiver”	the waiver granted by the Stock Exchange in relation to certain existing continuing connected transactions of the Group which expired on 31 March 2006;
“Group”	the Company and its subsidiaries;
“IFA”	CIMB-GK Securities (HK) Limited, the independent financial advisers of the Company;
“Independent Board Committee”	a board committee comprising of the independent non-executive Directors of the Company to be constituted to make recommendations to the Independent Shareholders in respect of the Annual Caps;
“Independent Shareholders”	Shareholders other than Mr. Lee Wan Keung, Patrick, and its associates;
“Lee & Man Manufacturing”	Lee & Man Industrial Manufacturing Limited;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Business Services Agreements”	the New Finished Goods Agreement and the New Steam Agreement;
“New Finished Goods Agreement”	the legally binding supply agreement dated 25 August 2006 entered into between Dongguan Lee & Man and Lee & Man Manufacturing pursuant to which Dongguan Lee & Man supplies finished goods (such as test liners and corrugated medium paper) to Lee & Man Manufacturing;
“New Steam Agreement”	the legally binding agreement dated 25 August 2006 entered into between Dongguan Lee & Man, Lee & Man Manufacturing pursuant to which Dongguan Lee & Man supplies steam to Lee & Man Manufacturing;
“PRC”	the People’s Republic of China;
“Shareholder(s)”	holder(s) of shares of the Company; and

“Stock Exchange”

The Stock Exchange of Hong Kong Limited.

By order of the Board
Lee & Man Paper Manufacturing Limited
Lee Wan Keung, Patrick
Chairman

25 August 2006

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond, Mr. Lee Man Bun, Mr. Li King Wai Ross and Mr. Tan Siak Him, Alexander, one non-executive director, namely Professor Poon Chung Kwong and three independent non-executive directors, namely Mr. Wong Kai Tung, Tony, Mr. Heng Kwoo Seng and Ms. Law Kar Shui Elizabeth.

“Please also refer to the published version of this announcement in The Standard.”