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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

On 20 May 2010 Jiangsu Paper, an indirectly wholly-owned subsidiary of the Company, entered into the New Agreements with Jiangsu Chemical to replace the Existing Agreements. Jiangsu Chemical is an indirectly wholly-owned subsidiary of Lee & Man Holding, an associate of Mr Lee Wan Keung Patrick, the chairman, a Director and the controlling shareholder of the Company. Accordingly, the transactions under the New Agreements constitute continuing connected transactions under the Listing Rules.

For the purpose of the Listing Rules, the New Annual Caps when aggregated with the annual caps under the Business Services Agreements would result in the Aggregated Annual Caps being more than 2.5% and less than 25% of the applicable percentage ratios and also greater than HK\$10,000,000. Consequently, the New Agreements and New Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Accordingly, each of the New Agreements is conditional upon the approval of the Independent Shareholders at the EGM.

In addition, since Lee & Man Holding is a company listed on the Stock Exchange, the New Agreements also constitute continuing connected transactions for Lee & Man Holding and are subject to approval by their independent shareholders.

A circular containing, among other things, details of the New Agreements, a letter from the Independent Board Committee to the Independent Shareholders, a letter of advice from the IFA to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

### **A. THE BACKGROUND**

On 14 March 2008, Jiangsu Paper, an indirectly wholly-owned subsidiary of the Company, entered into the Existing Agreements with Jiangsu Chemical. The Existing Agreements and their respective Existing Annual Caps for the three years ended 31 March 2009, 2010 and ending 31 March 2011 were approved by the Independent Shareholders at the extraordinary general

meeting held on 25 April 2008. For more details, please refer to the Company's announcements dated 14 March 2008 and 25 April 2008 and the Company's circular dated 31 March 2008.

On 20 May 2010, the New Agreements were entered into between the same parties to replace the Existing Agreements and provide for the continuation to provide services to generate steam and electricity. Each of the New Agreements has a term of three years commencing with effect from 1 April 2010 up to and including 31 March 2013. The New Agreements and the transactions contemplated thereunder and the New Annual Caps will be subject to approval by the Independent Shareholders at the EGM in accordance with the Listing Rules.

## **B. THE NEW AGREEMENTS**

The principal terms of the New Agreements are set out as follows:

### 1. New Steam Services Agreement

Date: 20 May 2010

Parties: (i) Jiangsu Paper (an indirectly wholly-owned subsidiary of the Company)

(ii) Jiangsu Chemical

Nature of Transaction: Jiangsu Paper will provide services to generate steam for Jiangsu Chemical at a charge of RMB30.00 per ton measured at Jiangsu Paper's meter. The coal for generating the steam will be supplied by Jiangsu Chemical to Jiangsu Paper in advance. The quantity of coal to be supplied by Jiangsu Chemical will be 0.164 ton of coal for 1 ton of steam, based on the coal standard at 4,750 kcal/kg. Jiangsu Chemical will provide the steam pipelines and relevant facilities to transfer steam to its production facilities. Jiangsu Chemical will also be responsible for the maintenance and repairs of steam pipelines and relevant facilities.

Term of Agreement: 3 years commencing with effect from 1 April 2010 till 31 March 2013.

Payment: Steam service fees will be paid in cash by Jiangsu Chemical within 14 days after the end of each month based on actual consumption of the amount of the steam but subject to the limits of the New Annual Caps.

### 2. New Electricity Services Agreement

Date: 20 May 2010

Parties: (i) Jiangsu Paper (an indirectly wholly-owned subsidiary of the Company)

(ii) Jiangsu Chemical

Nature of Transaction:	Jiangsu Paper will provide services to generate electricity for Jiangsu Chemical at a charge of RMB0.08 per kWh. The coal for generating the electricity will be supplied by Jiangsu Chemical to Jiangsu Paper in advance. The quantity of coal to be supplied by Jiangsu Chemical will be 0.557 kg for 1 kWh, based on the coal standard at 4,750 kcal/kg. Jiangsu Chemical will provide the electricity cables and relevant facilities to transmit electricity to its production facilities. Jiangsu Chemical will also be responsible for the maintenance and repairs of electricity cables and relevant facilities.
Term of Agreement:	3 years commencing with effect from 1 April 2010 till 31 March 2013.
Payment:	Electricity service fees will be paid in cash by Jiangsu Chemical within 14 days after the end of each month based on actual consumption of the electricity units but subject to the limits of the New Annual Caps.

Under the New Agreements, the steam and electricity service fees were based on the estimated supply costs (including overheads and a mark up representing the investment and financing costs of the electricity and steam generating facilities) of Jiangsu Paper. The New Agreements were negotiated and determined on an arm's length basis based on normal commercial terms. The Existing Agreements and Existing Annual Caps will continue to apply until the New Agreements come into effect, whereupon the Existing Agreements will be superseded by the New Agreements.

**C. HISTORICAL AMOUNTS AND ANNUAL CAPS**

The aggregate consideration for the services provided to generate steam and electricity for each of the years ended 31 March 2009 and 31 March 2010 were as follows:-

Type of Transaction	Amount	
	year ended 31 March 2009	year ended 31 March 2010
Services to generate steam by Jiangsu Paper to Jiangsu Chemical	RMB 11,058,000 (approximately HK\$ 12,566,000)	RMB 32,650,000 (approximately HK\$ 37,529,000)
Services to generate electricity by Jiangsu Paper to Jiangsu Chemical	RMB 6,772,000 (approximately HK\$ 7,696,000)	RMB 22,169,000 (approximately HK\$ 25,482,000)
<b>Total</b>	<b>RMB 17,830,000</b> <b>(approximately HK\$ 20,262,000)</b>	<b>RMB 54,819,000</b> <b>(approximately HK\$ 63,011,000)</b>

At the extraordinary general meeting of the Company held on 25 April 2008, the following Existing Annual Caps for the Existing Agreements for each of the three financial years ended 31 March 2009, 2010 and ending 31 March 2011, were approved by the Independent Shareholders.

<b>Type of Transaction</b>	<b>Year ended 31 March 2009</b>	<b>Amount Year ended 31 March 2010</b>	<b>Year ending 31 March 2011</b>
Services to generate steam by Jiangsu Paper to Jiangsu Chemical	RMB 32,500,000 (approximately HK\$ 35,425,000)	RMB 50,000,000 (approximately HK\$ 54,500,000)	RMB 37,500,000 (approximately HK\$ 40,875,000)
Services to generate electricity by Jiangsu Paper to Jiangsu Chemical	RMB 21,500,000 (approximately HK\$ 23,435,000)	RMB 30,000,000 (approximately HK\$ 32,700,000)	RMB 22,500,000 (approximately HK\$ 24,525,000)
<b>Total</b>	RMB 54,000,000 (approximately HK\$ 58,860,000)	RMB 80,000,000 (approximately HK\$ 87,200,000)	RMB 60,000,000 (approximately HK\$ 65,400,000)

#### **D. NEW ANNUAL CAPS**

The Company proposes that the New Annual Caps under the New Agreements (in respect of which Independent Shareholders approval is proposed to be sought at the EGM) for each of the three financial years ending 31 March 2011, 2012 and 2013 be as follows:-

<b>Type of Transaction</b>	<b>Year ending 31 March 2011</b>	<b>Amount Year ending 31 March 2012</b>	<b>Year ending 31 March 2013</b>
Services to generate steam by Jiangsu Paper to Jiangsu Chemical	RMB 20,100,000 (approximately HK\$ 22,853,700)	RMB 20,100,000 (approximately HK\$ 22,853,700)	RMB 20,100,000 (approximately HK\$ 22,853,700)
Services to generate electricity by Jiangsu Paper to Jiangsu Chemical	RMB44,800,000 (approximately HK\$50,937,600)	RMB 44,800,000 (approximately HK\$ 50,937,600)	RMB 44,800,000 (approximately HK\$ 50,937,600)
<b>Total</b>	RMB64,900,000 (approximately HK\$ 73,791,300)	RMB 64,900,000 (approximately HK\$73,791,300)	RMB 64,900,000 (approximately HK\$ 73,791,300)

The New Annual Caps have been determined by reference to the amount of historical transactions between Jiangsu Paper and Jiangsu Chemical for the two financial years ended 31 March 2009 and 2010, taking into account Jiangsu Paper's own anticipated consumption requirements, the spare electricity and steam capacity of Jiangsu Paper available for Jiangsu

Chemical's requirements, the production plans and the related estimated electricity and steam requirements of Jiangsu Chemical for the period from 1 April 2010 up to 31 March 2013, as well as the estimated unit price of steam and electricity services to be provided.

The Directors (excluding the Independent Board Committee whose views will be set out in the circular after having received advice from the IFA) are of the opinion that the New Agreements are entered into after arm's length negotiations, the terms of the New Agreements represent normal commercial terms and that the New Agreements and New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The advice and recommendation to the Independent Shareholders by the Independent Board Committee will be included in the circular to the Shareholders after they have received advice from the IFA.

Each of the New Agreements is conditional upon the approval of the Independent Shareholders at the EGM. In addition, since Lee & Man Holding is a company listed on the Stock Exchange, the New Agreements also constitute continuing connected transactions for Lee & Man Holding and is subject to approval by their independent shareholders.

#### **E. REASONS AND BENEFITS FOR THE TRANSACTIONS UNDER THE NEW AGREEMENTS**

The Group is a large-scale paper manufacturer and specializes in the production of linerboard and corrugating medium. The principal business of Jiangsu Paper is manufacturing and trading of paper. Lee & Man Holding and its subsidiaries are principally engaged in the manufacture and sale of handbags and luggage and chemical production. The principal business of Jiangsu Chemical is in the production and sales of chloromethane products, and the production facilities of Jiangsu Chemical are nearby the production of Jiangsu Paper in Jiangsu.

The New Agreements have been negotiated and agreed on an arms' length basis between Jiangsu Paper and Jiangsu Chemical based on normal commercial terms. The supply of steam in excess of those required for its own anticipated consumption requirement for supply to Jiangsu Chemical will enable Jiangsu Paper to generate additional income. It will also enhance the overall operational efficiency of the generating facilities due to larger economies of scale, and to lower the unit costs of steam and electricity to Jiangsu Paper.

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#### **F. GENERAL**

Jiangsu Chemical is an indirectly wholly-owned subsidiary of Lee & Man Holding, an associate of Mr Lee Wan Keung Patrick, the chairman, a Director, and the ultimate controlling shareholder of the Company. As at the date of this announcement, Mr Lee Wan Keung Patrick is interested in 51 % of Gold Best Holdings Ltd., which in turn is interested in approximately 63 % of the shares in the Company. Accordingly, the transactions under the New Agreements constitute continuing connected transactions under the Listing Rules. The Company does not hold any shares in Lee & Man Holding and vice versa as at the date of this announcement.

On 21 May 2008, Dongguan Lee & Man, an indirectly wholly-owned subsidiary of the Company, entered into the Business Services Agreements with Lee & Man Industrial, which is indirectly wholly owned by a daughter of Mr Lee Wan Keung Patrick, details of which are set out in the Company's announcement dated 21 May 2008. Under the Listing Rules, the Existing Agreements were aggregated with the Business Services Agreements and the respective annual caps thereunder also aggregated. Consequently, when determining the applicable percentage ratios under the New Agreements, the Company has continued to aggregate the annual caps under the Business Agreements.

Under the Listing Rules, the New Annual Caps, in aggregate, when aggregated with the annual caps under the Business Services Agreements, would result in the Aggregated Annual Caps being more than 2.5% and less than 25% of the applicable percentage ratios and also greater than HK\$10,000,000. Consequently, the New Agreements and the New Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Save for the New Agreements and the Business Services Agreements, the Company has confirmed with 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 Rule 14A.25 to 14A.27 of the Listing Rules. Mr Lee and his associates will abstain from voting at the EGM of the Company to approve the New Agreements, and 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 Agreements and the New Annual Caps. As Mr Wong Kai Tung, Tony, one of the independent non-executive Directors, is also an independent non-executive director of Lee & Man Holding, he will not form a member of the Independent Board Committee. CIMB 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 Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether each of the New Annual Caps are fair and reasonable.

A circular containing, among other things, details of the New Agreements, a letter from the Independent Board Committee to the Independent Shareholders, a letter of advice from the IFA 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:

"Aggregated Annual Cap"      the aggregated annual consideration received under the Business Services Agreements and the New Annual Caps;

"associates"	has the meaning ascribed thereto in the Listing Rules;
"Business Services Agreements"	a finished goods agreement and a steam and electricity agreement both dated 21 May 2008 entered into between Dongguan Lee& Man and Lee & Man Industrial, details of which are set out in the Company's announcement dated 21 May 2008;
"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 Jiangsu Paper and Jiangsu Chemical, which is beneficially 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 Agreements, the transactions contemplated hereunder and each of the New Annual Caps;
"Existing Annual Caps"	the maximum annual consideration for providing services to Jiangsu Chemical under the Existing Agreements for each of the three financial years ended 31 March 2009, and ending 31 March 2010 and 2011 as approved by independent Shareholders at the Company's extraordinary general meeting held on 25 April 2008;
"Existing Agreements"	the agreement dated 14 March 2008 between Jiangsu Paper and Jiangsu Chemical in relation to the services provided to generate steam by Jiangsu Paper to Jiangsu Chemical and the agreement dated 14 March 2008 between Jiangsu Paper and Jiangsu Chemical in relation to the services provided to generate electricity by Jiangsu Paper to Jiangsu Chemical;
"Group"	the Company and its subsidiaries;

"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong;
"IFA"	CIMB Securities (HK) Limited, the independent financial adviser of the Company in respect of the New Agreements and the transactions contemplated thereunder and the New Annual Caps;
"Independent Board Committee"	a board committee comprising Mr Peter A Davies and Mr Chau Shing Yim David, both of whom are independent non-executive Directors, and which will make recommendations to the Independent Shareholders in respect of the New Agreements and the New Annual Caps;
"Independent Shareholders"	Shareholders other than Mr Lee and his associates;
"Jiangsu Chemical"	Jiangsu Lee & Man Chemical Limited, a wholly foreign-owned enterprise established in the PRC and an associate of Mr Lee;
"Jiangsu Paper"	Jiangsu Lee & Man Paper Manufacturing Company Limited, a wholly foreign-owned enterprise established in the PRC and an indirectly wholly-owned subsidiary of the Company;
"kcal"	kilocalorie;
"kg"	kilogram;
"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;
"Lee & Man Holding"	Lee & Man Holding Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
"Lee & Man Industrial"	Lee & Man Industrial Manufacturing Limited, a company indirectly wholly owned by a daughter of Mr Lee Wan Keung Patrick;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"New Annual Caps"	the maximum annual consideration to be paid or received for providing services to generate electricity and steam by Jiangsu Paper to Jiangsu Chemical under the New Agreements for each



	of the three financial years ending 31 March 2011, 2012 and 2013, details of which are set out in section D of this Announcement;
"New Agreements"	the New Steam Services Agreement and New Electricity Services Agreement;
"New Steam Services Agreement"	the agreement dated 20 May 2010 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper provides services to generate steam for Jiangsu Chemical;
"New Electricity Services Agreement"	the agreement dated 20 May 2010 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper provides services to generate electricity for Jiangsu Chemical;
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of PRC;
"Shareholder(s)"	holder(s) of shares of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"ton"	a metric ton, a measurement of mass equal to 1,000 kilograms; and
"%"	per cent.

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

20 May 2010

*As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely Mr Lee Wan Keung Patrick, Mr Lee Man Chun Raymond, Mr Lee Man Bun, one non-executive director, 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.*

\* For identification purposes only