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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)

**SALE OF INTEREST IN FSGL
AND
CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF A COMPANY**

On 7 June 2010, FSGL, L&M Industries, Well Boom and RMS entered into the Share Sale Agreement and the Supplemental Deed whereby L&M Industries and Well Boom had agreed to sell the entire equity interest in FSGL and related Shareholders' Loans to RMS for the Purchase Price. On the same day, FSGL, L&M Industries and Well Boom entered into a conditional Master Agreement whereby FSGL had agreed to sell and L&M Industries had agreed to procure the purchase of the entire equity interest in the New WOFE. After arms length negotiations between L&M Industries and Well Boom, as vendors, and RMS, as purchaser, it was agreed that RMS would not purchase the effective interest in certain assets ultimately owned by FSGL and that these would be transferred to the New WOFE to be acquired by L&M Industries.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, RMS and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. FSGL is an associate of the Controlling Shareholder and is therefore a connected person of the Company. Each of the applicable percentage ratios (other than the profit ratio) in respect of the transactions contemplated under and in connection with the Master Agreement is more than 1% but less than 5%. Accordingly, the Master Agreement is a connected transaction under rule 14A.32(1) of the Listing Rules subject to reporting and announcement requirements but is exempt from approval by Shareholders.

BACKGROUND

On 7 June 2010, FSGL, L&M Industries, Well Boom and RMS entered into the Share Sale Agreement and the Supplemental Deed whereby L&M Industries and Well Boom had agreed to sell the entire equity interest in FSGL and related Shareholders' Loans to RMS for the Purchase Price. On the same day, FSGL, L&M Industries and Well Boom entered into a

* For identification purposes only

conditional Master Agreement whereby FSGL had agreed to sell and L&M Industries had agreed to procure the purchase of the entire equity interest in the New WOFE. After arms length negotiations between L&M Industries and Well Boom, as vendors, and RMS, as purchaser, it was agreed that RMS would not purchase the effective interest in certain assets ultimately owned by FSGL and that these would be transferred to the New WOFE to be acquired by L&M Industries.

FSGL is owned by L&M Industries and Well Boom as to 19% and 81% respectively. When FSGL became a joint venture between L&M Industries and Well Boom, each of L&M Industries and Well Boom subscribed for shares in FSGL at par value of US\$1.00 per share. L&M Industries also assigned a shareholders' loan in the amount of HK\$154,305,000 on a dollar-for dollar basis to Well Boom at completion of the joint venture and so, Well Boom's total cost of investment at the time was HK\$154,305,000. Further details of this joint venture between L&M Industries, a subsidiary of the Company, and Well Boom, an associate of the Controlling Shareholder, are set out in a circular issued by the Company on 10 September 2007 and was approved by Shareholders in accordance with the requirements of the Listing Rules.

The main terms of the Share Sale Agreement, the Supplemental Deed and the Master Agreement are set out below.

SHARE SALE AGREEMENT AND SUPPLEMENTAL DEED

On 7 June 2010, FSGL, L&M Industries, Well Boom and RMS entered into the Share Sale Agreement and the Supplemental Deed whereby L&M Industries and Well Boom had agreed to sell the entire equity interest in FSGL and related Shareholders' Loans to RMS for the Purchase Price.

The Purchase Price for the Sale Shares and the assignment of the Shareholders' Loans is the Initial Purchase Price, subject to downward or upward adjustments to take into account changes in working capital and certain other events that take place after 31 March 2010, being the financial year end of the Company, and prior to Completion. The Shareholders' Loans will be assigned on a dollar for dollar basis and the consideration apportioned to the Sale Shares shall be the Purchase Price less the amount of the Shareholders' Loans. The consideration attributable to the Sale Shares shall be apportioned between L&M Industries and Well Boom pro rata to their shareholding in FSGL.

The Purchase Price was arrived at after arm's length negotiations between the parties on normal commercial terms. The Company has taken into account the negative book value of the Sale Shares (amounting to HK\$89,252,000 as at 31 March 2010) and the relevant portion of the Shareholders' Loans (amounting to HK\$436,300,000 as at 31 March 2010) in aggregate and the losses of FSGL of approximately HK\$45,480,000 for the year ended 31 March 2010. The amount of the Shareholders Loans is expected to continue to change up to Completion. Taking into account the Shareholders' Loans ultimately advanced by L&M Industries as at 31 May 2010 of HK\$395,000,000, L&M Industries expects to receive, subject to the adjustments to the Purchase Price referred to above, HK\$410,700,000. The remaining amount of the Purchase Price expected to be received by Well Boom, subject to the adjustments to the Purchase Price referred to above, is HK\$112,100,000.

Completion of the Share Sale Agreement is conditional upon, among others, the following conditions being fulfilled or waived:

- (i) all authorisations, consents, approvals, waivers or permits of any third parties or governmental authorities, including requirements under the Listing Rules (if any), having been obtained;
- (ii) RMS being satisfied with the result of the due diligence investigations;
- (iii) the Shareholders' Agreement and the Option Agreement being terminated;
- (iv) the adjustment to the Purchase Price and the completion accounts having been agreed between the parties.

Completion will take place on the Completion Date. Upon Completion, L&M Industries and Well Boom will cease to have any interest in FSGL.

FSGL is the holding company of the PRC Company. The PRC Company is principally engaged in the business of forestry resources in the Guangxi Province of the PRC. The forestry resources include, among other things, acquire, grow, harvest and replant timber on commercial forestry plantations located in the Guangxi Province.

After arms length negotiations between L&M Industries and Well Boom, as vendors, and RMS, as purchaser, it was agreed that RMS would not purchase the Land, certain fixed assets currently owned by the PRC Company and certain employees employed by the PRC Company would also not be taken on by RMS after Completion. The Supplemental Deed sets out the parties' obligations in relation to the Land, those fixed assets and employees. Pursuant to the Supplemental Deed, the New WOFE will be established by FSGL prior to Completion. The PRC Company and the New WOFE will enter into the Transfer Agreement to transfer the Land, the relevant fixed assets and certain employees of the PRC Company to the New WOFE. After that, the New WOFE will be sold by FSGL to the New HK Company which will be wholly-owned by L&M Industries. To maintain the continuity for the PRC Company's business after Completion, the New WOFE will enter into a lease to grant the PRC Company an exclusive right to use and occupy certain parts of the Land and related facilities and will also provide ancillary support to the PRC Company for a period of two years from Completion. It is expected that the consideration payable to the New WOFE under such lease would be RMB500,000 (approximately HK\$570,000) per year.

MASTER AGREEMENT

As neither the New WOFE nor the New HK Company has been established or incorporated as at the date of the Supplemental Deed, the Master Agreement was also entered into on 7 June 2010 between FSGL, L&M Industries and Well Boom so as to facilitate the acquisition by New HK Company, a subsidiary of the Company once it is established, of the New WOFE and thereby effectively acquire the Land, certain assets and employees of the PRC Company which will not be taken on by RMS after Completion.

Pursuant to the Master Agreement, FSGL has agreed to sell and L&M Industries has agreed to procure the purchase by the New HK Company of the entire equity interest in the New WOFE for the total cash consideration of HK\$1.00 and the assumption of liability by the New HK Company to fund outstanding payments by the New WOFE in a maximum amount of RMB90 million (equivalent to approximately HK\$102 million) as payment for the Transfer Agreement. The consideration was arrived at after arm's length negotiations between the parties on normal commercial terms. In determining the amount payable under the Transfer Agreement, it is expected that the consideration would reflect the book value of the Land, the fixed assets and the costs of certain employees and, for reference, such book value as at 31 March 2010 when aggregated with the costs of the relevant employees was approximately RMB73 million (equivalent to approximately HK\$83 million).

It is also agreed that the Shareholders' Agreement and the Option Agreement shall also be terminated simultaneously with Completion. Further details of the Shareholders Agreement and Option Agreement are set out in a circular issued by the Company on 10 September 2007 and were approved by Shareholders in accordance with the requirements of the Listing Rules. They related to how Well Boom and L&M Industries would govern FSGL and an option arrangement whereby L&M Industries could acquire more shares in FSGL. After Completion, such agreements would no longer be relevant.

The Master Agreement is conditional upon the execution of the Share Sale Agreement and the compliance by the Company of any applicable Listing Rules. However, the completion of the Master Agreement will not be conditional on Completion which is to take place on a date to be agreed but will take place no later than Completion.

REASON FOR AND BENEFIT OF THE TRANSACTIONS

RMS is a registered investment adviser based in Birmingham, Alabama and is a private timberland investment firm serving pension funds, endowments, foundations and family offices. RMS is a forestry-centered company founded, owned and managed by forestry professionals and it creates value through the disciplined integration of forestry and finance.

Based on the consolidated net results of FSGL (i) the net loss before taxation and extraordinary items for the years ended 31 March 2009 and 31 March 2010 were approximately HK\$44,084,000 and approximately HK\$45,480,000 respectively; and (ii) the net loss after taxation and extraordinary items for the years ended 31 March 2009 and 31 March 2010 were approximately HK\$44,084,000 and approximately HK\$45,480,000 respectively.

The strategy of the Group is to strengthen its expertise in the paper and pulp business. The Disposal as part of the overall sale of FSGL to RMS not only enables the Group to utilise cash flow previously employed in FSGL for the benefit of the working capital and future expansion of its paper and pulp business in PRC, but also represents a good opportunity to work strategically with an international forestry company. It is expected that after Completion, the PRC Company would be a supplier to the Group and provide a stable supply of wood fibre for its proposed pulp business in Guangxi. Such supply to the Group will take into account then prevailing market prices and grade of timber supplied.

The Directors (including the independent non-executive Directors) consider the terms of Share Sale Agreement (including the Disposal), the Supplemental Deed and the Master Agreement to be fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

GENERAL

The Group is a large-scale integrated paper and pulp manufacturer and specialises in production of containerboard and pulp. L&M Industries is an indirect wholly-owned subsidiary of the Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, RMS and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Well Boom is a holding company incorporated in the British Virgin Islands and wholly-owned by the Controlling Shareholder. Well Boom owns 81% of FSGL. FSGL is an associate of the Controlling Shareholder and is therefore a connected person of the Company. Each of the applicable percentage ratios (other than the profit ratio) in respect of the transactions contemplated under and in connection with the Master Agreement is more than 1% but less than 5%. Accordingly, the Master Agreement is a connected transaction under rule 14A.32(1) of the Listing Rules subject to reporting and announcement requirements but exempt from approval by Shareholders.

As Mr. Lee Wan Keung Patrick, Mr. Lee Man Chun Raymond and Mr. Lee Man Bun, the executive Directors, are shareholders of the Controlling Shareholder and Mr. Lee Wan Keung Patrick and Lee Man Chun Raymond are also directors of the Controlling Shareholder, they are materially interested in the transactions contemplated under the Share Sale Agreement (including the Disposal), Supplemental Deed and the Master Agreement. Consequently, they had abstained from voting on the relevant board resolutions approving the aforesaid transactions.

DEFINITIONS

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

“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
“Completion”	means the completion of the sale and purchase of the Sale Shares and assignment of the Shareholders' Loans in accordance with the Share Sale Agreement
“Completion Date”	31 August 2010 or any other date to be agreed between the parties
“Controlling Shareholder”	Gold Best Holdings Ltd., a company incorporated in the British Virgin Islands and the controlling shareholder (as defined in the Listing Rules) of the Company

“Director(s)”	the director(s) of the Company
“Disposal”	the disposal by L&M Industries of the 19% of the total issued share capital in FSGL and the assignment by L&M Industries of the relevant portion of the Shareholders’ Loans to RMS
“FSGL”	Fortune Sight Group Limited, a company incorporated in the British Virgin Islands
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Purchase Price”	means RMB458,600,000 (approximately HK\$522,800,000)
“ Land”	the part of the land and other buildings erected thereon currently by the PRC Company as more particular delineated in the Supplemental Deed
“L&M Industries”	Lee & Man Industries Company Limited, a company incorporated in the British Virgin Island and is indirectly wholly-owned by the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New HK Company”	a new company to be incorporated in Hong Kong and wholly-owned by L&M Industries
“Option Agreement”	the option agreement dated 28 September 2007 between L&M Industries and Well Boom
“PRC Company”	廣西理文林業科技發展有限公司 (Guangxi Lee & Man Forestry Technology Limited), a wholly owned foreign enterprise established in the PRC and wholly-owned by FSGL
“Purchase Price”	the Initial Purchase Price as adjusted in accordance with the terms of the Share Sale Agreement
“RMS”	Resource Management Service, LLC, a company incorporated in the United States
“Sale Shares”	the 190 shares in FSGL held by L&M Industries and the 810 shares in FSGL held by Well Boom
“Shareholders”	shareholder(s) of the Company

“Shareholders’ Agreement”	the shareholders’ agreement dated 28 September 2007 between L&M Industries, Well Boom and FSGL
“Shareholders’ Loans”	the shareholders’ loans advanced to FSGL by L&M Industries and Well Boom respectively which are still outstanding as at the Completion Date
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company
“Share Sale Agreement”	the share sale agreement dated 7 June 2010 between L&M Industries, Well Boom, RMS and FSGL in relation to the sale and purchase of the Sale Shares and the assignment of the Shareholders’ Loans
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the supplemental deed dated 7 June 2010 between L&M Industries, Well Boom, RMS and FSGL
“Transfer Agreement”	the transfer agreement to be entered into between the PRC Company and the New WOFE in relation to the transfer of the Land, certain fixed assets and employees of the PRC Company to the New WOFE
“Well Boom”	Well Boom International Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Controlling Shareholder
“%”	per cent.

For illustration purpose in this announcement, the conversion rate of RMB1.00 = HK\$1.14 was adopted.

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

7 June 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.