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## **LEE & MAN HOLDING LIMITED**

**理文集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

*Website: <http://www.leeman.com.hk>*

*(Stock Code: 746)*

### **CONTINUING CONNECTED TRANSACTIONS**

#### **New Jiangsu Agreements**

On 27 May 2011, the New Jiangsu Steam Services Agreement and the New Jiangsu Electricity Services Agreement were entered into between the same parties to replace the Existing Jiangsu Agreements and provide for the continuation to provide services to generate steam and electricity. Each of the New Jiangsu Agreements has a term of three years commencing with effect from 1 April 2011 up to and including 31 March 2014.

The New Jiangsu Agreements will constitute continuing connected transactions of the Group.

Under the Listing Rules, the transactions under the New Jiangsu Agreements would be aggregated as the services (steam and electricity) to be provided and the parties, are the same or are otherwise associated under the New Jiangsu Agreements. 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 New Jiangsu Agreements, pursuant to Rule 14A.34 of the Listing Rules, are only subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **A. THE BACKGROUND**

### **New Jiangsu Agreements**

On 20 May 2010, Jiangsu Chemical, an indirect wholly-owned subsidiary of the Company, entered into the Existing Jiangsu Agreements with Jiangsu Paper. The Existing Jiangsu Agreements and their respective Existing Annual Caps for the three financial years ended 31 December 2010, and ending 31 December 2011 and 2012 were approved by the Independent Shareholders at the extraordinary general meeting held on 24 June 2010. For more details, please refer to the Company's announcement dated 20 May 2010 and the Company's circular dated 4 June 2010.

On 27 May 2011, the New Jiangsu Steam Services Agreement and the New Jiangsu Electricity Services Agreement were entered into between the same parties to replace the Existing Jiangsu Agreements and provide for the continuation to provide services to generate steam and electricity. Each of the New Jiangsu Agreements has a term of three years commencing with effect from 1 April 2011 up to and including 31 March 2014.

## **B. THE AGREEMENTS**

### **1. New Jiangsu Steam Services Agreement**

Date: 27 May 2011

Parties: (i) Jiangsu Chemical (an indirect wholly-owned subsidiary of the Company)  
(ii) Jiangsu Paper

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 2011 till 31 March 2014.

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 Jiangsu Electricity Services Agreement

Date:	27 May 2011
Parties:	(i) Jiangsu Chemical (an indirect wholly-owned subsidiary of the Company)  (ii) Jiangsu Paper
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 at its own expense. 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 2011 till 31 March 2014.
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 Jiangsu Agreements, the steam and electricity service fees were based on the estimated supply costs (including overheads and the financing costs of the electricity and steam generating facilities) of Jiangsu Paper. The New Jiangsu Agreements were negotiated and determined on an arm's length basis based on normal commercial terms. The Existing Jiangsu Agreements and Existing Annual Caps will be superseded by the New Jiangsu Agreements and the New Annual Caps.

### C. HISTORICAL AMOUNTS AND ANNUAL CAPS

#### Historical amounts and the corresponding historical annual caps under the Existing Jiangsu Agreements *(Note)*

The aggregate consideration for the services provided under the Existing Jiangsu Agreements compared against the related annual caps for the three years ended 31 December 2008, 2009 and 2010 were as follows:-

Transaction type	Existing Jiangsu Agreement		
	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010
Services to generate steam by Jiangsu Paper to Jiangsu Chemical	Actual consideration		
	RMB 8,078,000 (approximately HK\$9,678,000)	RMB27,944,000 (approximately HK\$33,477,000)	RMB17,187,000 (approximately HK\$20,590,000)
	Annual cap		
	RMB 20,000,000 (approximately HK\$23,960,000)	RMB 50,000,000 (approximately HK\$59,900,000)	RMB23,918,000 (approximately HK\$28,654,000)
Services to generate electricity by Jiangsu Paper to Jiangsu Chemical	Actual consideration		
	RMB 5,061,000 (approximately HK\$6,063,000)	RMB 18,778,000 (approximately HK\$22,496,000)	RMB34,770,000 (approximately HK\$41,655,000)
	Annual cap		
	RMB14,000,000 (approximately HK\$16,772,000)	RMB 30,000,000 (approximately HK\$35,940,000)	RMB 39,437,000 (approximately HK\$47,245,000)
Total:	Actual consideration		
	RMB 13,139,000 (approximately HK\$15,741,000)	RMB46,722,000 (approximately HK\$55,973,000)	RMB51,957,000 (approximately HK\$62,245,000)
	Annual cap		
	RMB 34,000,000 (approximately HK\$40,732,000)	RMB 80,000,000 (approximately HK\$95,840,000)	RMB 63,355,000 (approximately HK\$75,899,000)

*Note : The Existing Jiangsu Agreements replaced the Jiangsu steam services agreement and the Jiangsu electricity services agreement both dated 14 March 2008 (“2008 Jiangsu Agreements”) which were both entered into with the same parties for the same services as those under the Existing Jiangsu Agreements. The 2008 Jiangsu Agreements and their respective annual caps were approved by the Independent Shareholders at the extraordinary general meeting held on 25 April 2008. The aggregate consideration for the services and related annual caps shown above for the years ended 31 December 2008 and 2009 are therefore amounts in respect of the 2008 Jiangsu Agreements (prior to being superseded by the Existing Jiangsu Agreements). The aggregate consideration for the services and related*

*annual caps shown for the year ended 31 December 2010 are amounts in respect of the Existing Jiangsu Agreements.*

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

The Company proposes that the New Annual Caps for each of the three financial years ending 31 December 2011, 2012 and 2013 be as follows:-

<b>Type of Transaction</b>	<b>New Annual Caps</b>		
	<b>Year ending 31 December 2011</b>	<b>Year ending 31 December 2012</b>	<b>Year ending 31 December 2013</b>
Services to generate steam by Jiangsu Paper to Jiangsu Chemical	RMB17,850,000 (approximately HK\$21,384,000)	RMB17,100,000 (approximately HK\$20,486,000)	RMB17,100,000 (approximately HK\$20,486,000)
Services to generate electricity by Jiangsu Paper to Jiangsu Chemical	RMB52,420,000 (approximately HK\$62,799,000)	RMB54,960,000 (approximately HK\$65,842,000)	RMB54,960,000 (approximately HK\$65,842,000)
Total	RMB70,270,000 (approximately HK\$84,183,000)	RMB72,060,000 (approximately HK\$86,328,000)	RMB72,060,000 (approximately HK\$86,328,000)

#### **New Annual Caps**

The New Annual Caps have been determined by reference to the amount of historical transactions between Jiangsu Chemical and Jiangsu Paper for the three years ended 31 December 2008, 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 2011 up to 31 March 2014, as well as the estimated unit price of steam and electricity services to be provided.

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

##### **New Jiangsu Agreements**

The Group is principally engaged in the manufacture and sale of handbags and chemical production. The principal business of Jiangsu Chemical is in the production and sales of chloromethane products. Lee & Man Paper and its subsidiaries are a large-scale paper manufacturer and specialize in the production of linerboard and corrugating medium. The principal business of Jiangsu Paper is manufacturing and trading of paper. The Group's production facilities in Jiangsu do not have any steam generating facilities and electricity generator, and the production facilities of Lee & Man Paper (which has such facilities) are located nearby.

The New Jiangsu Agreements have been negotiated and agreed on an arm's length basis between Jiangsu Chemical and Jiangsu Paper based on normal commercial terms. As compared to the Existing Annual Caps, the respective New Annual Caps reflect anticipated value of transactions. By entering into the New Jiangsu Agreements, the Company will benefit from securing steady supply of electricity and steam to ensure fulfilment of the Company's production needs.

## **F. GENERAL**

Jiangsu Paper is an indirectly wholly-owned subsidiary of Lee & Man Paper. Mr. Lee Wan Keung Patrick, is also the ultimate controlling shareholder of both Lee & Man Paper and the Company (through his shareholding interest in Fortune Star, the controlling shareholder of the Company). As at the date of this announcement, Fortune Star is interested in approximately 75 % of the shares in the Company and Mr. Lee Wan Keung Patrick is interested in 55 % of the shares in Fortune Star. Accordingly, the transactions under the New Jiangsu Agreements constitute continuing connected transactions under the Listing Rules. The Company does not hold any shares in Lee & Man Paper and vice versa as at the date of this announcement.

The Directors (including the independent non-executive Directors) are of the view that the New Jiangsu 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 New Jiangsu Agreements is required to abstain from voting on the Board resolutions in relation to the same.

Under the Listing Rules, the transactions under the New Jiangsu Agreements would be aggregated as the services (steam and electricity) to be provided and the parties, are the same or are otherwise associated under the New Jiangsu Agreements.

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 New Jiangsu Agreements, pursuant to Rule 14A.34 of the Listing Rules, are 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:

"Aggregated Annual Caps"	the aggregated annual consideration received under the New Annual Caps;
"associates"	has the meaning ascribed thereto in the Listing Rules;
"Board"	the board of Directors;
"Company"	Lee & Man Holding 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;
"Fortune Star"	Fortune Star Tradings Ltd., a company incorporated in the British Virgin Islands and the controlling shareholder of the Company;
"Existing Annual Caps"	the maximum annual consideration for providing steam and electricity by Jiangsu Paper to Jiangsu Chemical under the Existing Jiangsu Agreements for each of the three financial years ended 31 December 2010, and ending 31 December 2011 and 2012 as approved by independent Shareholders at the Company's extraordinary general meeting held on 24 June 2010;
"Existing Jiangsu Agreements"	the agreements dated 20 May 2010 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 20 May 2010 and circular dated 4 June 2010;
"Group"	the Company and its subsidiaries;
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Independent Shareholders"	Shareholders other than Mr. Lee Wan Keung, Patrick and his associates;
"Jiangsu Chemical"	Jiangsu Lee & Man Chemical Limited, a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company and an associate of Mr. Lee Wan Keung, Patrick;

"Jiangsu Paper"	Jiangsu Lee & Man Paper Manufacturing Company Limited, a wholly foreign-owned enterprise established in the PRC;
"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;
"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 Jiangsu Agreements for each of the three financial years ending 31 December 2011, 2012 and 2013, details of which are set out in this announcement;
"New Jiangsu Agreements"	the New Jiangsu Steam Services Agreement and New Jiangsu Electricity Services Agreement;
"New Jiangsu Steam Services Agreement"	the agreement dated 27 May 2011 entered into between Jiangsu Chemical and Jiangsu Paper pursuant to which Jiangsu Paper provides services to generate steam for Jiangsu Chemical;
"New Jiangsu Electricity Services Agreement"	the agreement dated 27 May 2011 entered into between Jiangsu Chemical and Jiangsu Paper 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.

For illustration purposes only the exchange rate of RMB 1 = HK\$1.198 has been adopted for translating RMB into HK\$ in this announcement.

By order of the Board  
**Lee & Man Holding Limited**  
**Wai Siu Kee**  
Chairman

27 May 2011

*At the date hereof this announcement, the Board comprises 4 executive directors, namely, Ms Wai Siu Kee, Ms Poon Lai Ming, Mr Lee Man Yan and Mr Kung Phong, and 3 independent non-executive directors, namely, Mr Wong Kai Tung, Tony, Mr Wan Chi Keung, Aaron BBS JP and Mr. Heng Victor Ja Wei.*

\* *For identification purposes only*