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## **Vinda International Holdings Limited**

### **維達國際控股有限公司**

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

**(Stock code: 3331)**

### **CONTINUING CONNECTED TRANSACTIONS**

On 22 November 2011, the Tenant, an indirectly wholly-owned subsidiary of the Company, entered into the Lease Agreement with the Landlord, a Connected Person, whereby the Landlord had agreed to lease the Tenant a piece of land located in Xinhui District, Guangdong, the PRC together with a factory and the relevant ancillary infrastructures and facilities to be constructed for an initial term of 15 years commencing on 22 November 2011 with an initial fixed annual rental of RMB29,000,000 until 31 December 2014. The annual rental will be subject to review by the Board every three years. The first review is expected to take place on 31 December 2014 and the subsequent reviews will take place at the end of each three-year interval thereafter.

Under the Lease Agreement, the Tenant will enjoy a rent-free period of not less than 12 months and the Landlord has also granted to the Tenant an option during the term of the Lease Agreement to purchase the rented property and all incidental infrastructures and facilities at the fair market value as advised by an independent valuer to be appointed by both parties as at the time when the option is exercised. Exercise of the option may be subject to independent Shareholders' approval.

The Landlord is wholly-owned by Fu An, a company owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping, three executive Directors. In the circumstances, the Landlord is regarded as a Connected Person and any transaction between the Landlord and the Group will constitute a connected transaction of the Company. In addition, as the transactions contemplated under the Lease Agreement are of a continuing nature, they will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since each of the applicable percentage ratios (other than the profits ratio) calculated with reference to each of the Annual Caps for the Lease Agreement is less than 5%, the continuing connected transactions contemplated under the Lease Agreement are only subject to the reporting, announcement and annual review requirements and exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

## **THE LEASE AGREEMENT**

The principal terms of the Lease Agreement are as follows:

### **Date**

22 November 2011

### **Parties**

1. The Tenant, as tenant. The Tenant is a company established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company; and
2. the Landlord, as landlord. The Landlord is wholly-owned by Fu An, a company owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping, three executive Directors. In the circumstances, the Landlord is a Connected Person.

### **Location and infrastructure**

The land to be leased by the Landlord to the Group pursuant to the terms and conditions of the Lease Agreement is situated at Sibeil Yangsha, Xinjiang Village, Sanjiang County, Xinhui District, Guangdong, the PRC with an area of approximately 116,838 square meters. Pursuant to the Lease Agreement, the Landlord will be responsible for the construction of a factory and the provision of certain infrastructures and facilities ancillary to the factory, including the boilers, water sewage disposal treatment and electricity facility, at its own costs in accordance with the specifications and requirements of the Tenant and the sewage indicator imposed by the relevant PRC authority. The factory is expected to have a gross floor area of not less than approximately 58,000 square meters. The Landlord will also be responsible for attending to the relevant governmental approval procedures and obtaining all the relevant governmental approvals in relation to the operation of the factory, which shall include, among other things, environmental protection assessment, and sewage indicator to allow the factory's production of not less than 80,000 tons of papers per annum. As at the date of this announcement, construction of the factory and the relevant facilities has yet to be commenced. Based on the current plan of the Landlord and the Group, construction is expected to commence in December 2011. The Landlord has further agreed that it would deliver possession of the factory and the ancillary infrastructures and facilities to the Tenant on or before 30 September 2012.

### **Term and rental**

The Landlord has agreed to lease to the Tenant the land together with the factory and the relevant ancillary infrastructures and facilities to be constructed as specified in the Lease Agreement for an initial term of 15 years commencing on 22 November 2011 with an initial fixed annual rental of RMB29,000,000 until 31 December 2014. The annual rental will be subject to review by the Board every three years with reference to the prevailing market rental as advised by an independent professional property valuer to be jointly appointed by both parties. The first review is expected to take place on or about 31 December 2014 and the subsequent review will take place at the end of each three-year interval thereafter. The annual rental during the three years ending 31 December 2014 will be subject to a downward adjustment if the actual total gross floor area of the factory is smaller than the expected total

gross floor area of the factory of approximately 58,000 square metres and such discrepancy is more than 5%, i.e., 2,900 square meters. No upward adjustment will be required if the actual total gross floor area of the factory is larger than 58,000 square meters.

Pursuant to the terms of the Lease Agreement, in the event that the future Annual Caps are required to be approved by the independent Shareholders pursuant to the Listing Rules and the Company fails to obtain such approval, the Lease Agreement will be terminated forthwith and upon the refund of the rental deposit in accordance with the terms of the Lease Agreement, neither the Landlord nor the Tenant shall have any further liability thereunder.

### **Initial payment**

The rental will be paid by the Tenant on a quarterly basis, with each payment to be paid in advance before the fifteenth day in the first month of each quarter. In addition, the Tenant will pay to the Landlord (a) a rental deposit of RMB21,750,000, being the initial rental for a nine-month period and (b) an advanced payment of RMB7,250,000, being the initial rental for three months commencing upon expiry of the rent free period. The rental deposit and the advanced payment will be payable by the Tenant within thirty days from the date of the Lease Agreement.

### **Rent free period**

The Landlord has agreed to grant to the Tenant a rent free period from the commencement of the term of the lease until (i) 3 months after the date of delivery of the land, the factory and all incidental facilities for vacant possession or (ii) 31 December 2012, whichever is later.

### **Other term**

The Landlord has granted to the Tenant an option pursuant to which the Tenant will have the right during the term of the Lease Agreement to purchase the rented property and all incidental infrastructures and facilities at the fair market value as advised by an independent valuer to be appointed by both parties as at the time when the option is exercised. In addition, the Tenant has an option to renew the lease upon its expiry on terms no less favourable than those offered to any independent third parties. Exercise of the option may be subject to independent Shareholders' approval.

### **Annual Caps and determination**

The Annual Caps under the Lease Agreement are as follows:

	<b>Annual Cap for the period between the date of the Lease Agreement to 31 December 2011</b>	<b>Annual caps for the year ending 31 December</b>		
		<b>2012</b>	<b>2013</b>	<b>2014</b>
Rental under the Lease Agreement	Nil (Note)	Nil (Note)	RMB29,000,000	RMB29,000,000

*Note:* The period is under the rent free period.

The Annual Caps were determined after taking into account (a) the location of the land and the factory; (b) the construction costs of the factory and the relevant infrastructures and facilities; and (c) the prevailing market rent.

## **OPINION OF THE INDEPENDENT FINANCIAL ADVISER, COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES AND REASONS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS**

Rule 14A.35(1) of the Listing Rules provides that the term of the agreement for continuing connected transactions shall not be more than three years, except in special circumstances which are limited to cases where the nature of the transaction requires the agreement to be of a duration which is longer than three years. Accordingly, the Independent Financial Adviser has been appointed to advise the Company on the term of the Lease Agreement which is of a term exceeding three years and whether such term is normal business practice for agreement of such type to be of such duration.

The Directors are of the view that the latest business development of the Group requires the Tenant to enter into the Lease Agreement and of such a duration given that:

- (a) the market in Southern China for tissue papers enjoyed tremendous growth in recent years and the Group is in the leading position in this region. Despite having an aggregate of 180,000 tons production capacity from 2 production plants located in Guangdong Province, the Group's production capacity is not sufficient to satisfy its market demands. With the limited production capacity, the Group will suffer high logistic costs resulting from having to source the finished products from outside of the region. The Group sees an urgent need to identify a suitable site to cater for its new production capacity expansion in Southern China;
- (b) the expansion of production capacity for the manufacturing of tissue paper requires suitable land, buildings and ancillary infrastructures and facilities equipped with the relevant compliance with the sewage indicator which is a limited supply in the PRC and in particular in Guangdong Province. The rented site and the tailor-made factory will provide the required compliance with the sewage indicator for the manufacturing of tissue papers products and the factory and the ancillary infrastructures and facilities will be constructed in accordance with the Group's specifications and requirements and sewage indicator imposed by the PRC authority. The Lease Agreement will be the most time-and-cost efficient arrangement for the Group's expansion in Southern China;
- (c) the 15-year term Lease Agreement, together with the option to purchase the rented property and its ancillary infrastructures and facilities, allows the Group to have maximum flexibility in deploying its resources for capital expenditure on the one hand and its working capital and other cash requirement on the other hand. The 15-year term also enables the Group to lock in a suitable property, tailor-made factory and ancillary infrastructures and facilities together with the scarce sewage indicator without the worry of a relocation before the Group can enjoy the full benefit of the depreciation of the equipment and machineries to be purchased for the present expansion plan in Southern China; and
- (d) the 15-year term Lease Agreement provides the Group to reduce the relocation risk from removal the production plant, facilities, administration officer and workers to new location which may cause disruption to the production of the Group if the Lease

Agreement is to be expired shortly. The long term Lease Agreement ensures the smooth operation of the Group and allows long term investment on the production plants of the Group during the leasing term.

Having reviewed the long-term leasing agreements for land and properties entered into by different Hong Kong listed companies with their related companies or third parties which cover the period commencing from 2008 up to and including the date of this announcement, the Independent Financial Adviser concurs with the Directors' views that the term of the Lease Agreement, being more than three years, is beneficial to the Group and is in the interests of the Company and the Shareholders as a whole, and it is a normal practice for lease agreement of this kind to have a duration of more than three years.

## **GENERAL INFORMATION**

The Group is principally engaged in the manufacturing of tissue paper products in the PRC and its principal products include toilet paper, paper handkerchiefs, facial tissue paper and paper napkins.

The continuing connected transactions contemplated under the Lease Agreement are expected to occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

The Directors (including the independent non-executive Directors but excluding Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Dong Yi Ping, three executive Directors) consider that the Lease Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms. The Directors (including the independent non-executive Directors but excluding Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Dong Yi Ping, three executive Directors) believe that the terms of the Lease Agreement (including the Annual Caps) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

## **IMPLICATIONS OF THE LISTING RULES**

The Landlord is wholly-owned by Fu An, a company owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping, three executive Directors. In the circumstances, the Landlord is regarded as a Connected Person and any transaction between the Landlord and the Group will constitute a connected transaction of the Company. In addition, as the transactions contemplated under the Lease Agreement are of a continuing nature, they will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since each of the applicable percentage ratios (other than the profits ratio) calculated with reference to each of the Annual Caps for the Lease Agreement is less than 5%, the continuing connected transactions contemplated under the Lease Agreement are only subject to the reporting, announcement and annual review requirements and exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

## DEFINITIONS

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

“Annual Caps”	the expected maximum aggregate annual amounts of the transactions under the Lease Agreement for the year ending 31 December 2012, 31 December 2013 and 31 December 2014 as set out in the paragraph headed “Annual Caps and determination” in this announcement
“Board”	the board of directors of the Company
“Company”	Vinda International Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange (stock code: 3331)
“Connected Person”	shall have the meaning given to it in the Listing Rules
“Directors”	directors of the Company
“Fu An”	means Fu An Trading (Hong Kong) Limited, a company incorporated under the laws of Hong Kong on 3 December 2010 and is owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping, three executive Directors
“Group”	the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser”	New Spring Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Company
“Independent Third Party(ies)”	means third party(ies) independent of the Company and the Connected Persons
“Landlord”	江門泰源紙業有限公司 (for identification purpose only, in English, Jiangmen Taiyuan Paper Company Limited), a company established under the laws of the PRC, is wholly-owned by Fu An
“Lease Agreement”	the lease agreement dated 22 November 2011 made between the Landlord and the Tenant for the lease of a piece of land together with the factory and the relevant ancillary infrastructures and facilities for an initial term of 15 years commencing from 22 November 2011
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	shall have the meaning given to it in the Listing Rules



“Tenant”	the tenant of the Lease Agreement, a company established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the board  
**Vinda International Holdings Limited**  
**ZHANG Dong Fang**  
*Executive Director and chief executive officer*

Hong Kong, 22 November 2011

*As at the date of this announcement, the executive Directors are Mr. Li Chao Wang, Ms. Yu Yi Fang, Ms. Zhang Dong Fang and Mr. Dong Yi Ping; the non-executive Directors are Mr. Johann Christoph Michalski, Mr. Ulf Olof Lennart Soderstrom and Mr. Chiu Bun (alternate director to Mr. Michalski and Mr. Soderstrom); and the independent non-executive Directors are Dr. Cao Zhen Lei, Mr. Kam Robert, Mr. Hui Chin Tong, Godfrey and Mr. Tsui King Fai.*