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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)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

On 8 November 2018, the Buying Agent Agreement was entered into among the Buying Agents and Lee Kwok Trading pursuant to which Lee Kwok Trading appointed the Buying Agents to act as its buying agents for sourcing recovered paper in the United States, the United Kingdom and continental Europe. The Buying Agent Agreement has a term of three years commencing with effect from 1 January 2019 up to and including 31 December 2021.

The Buying Agents are connected persons of the Company under the Listing Rules and the transactions under the Buying Agent Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The relevant percentage ratios under the Listing Rules for the Buying Agent Annual Caps are, on an annual basis, more than 5%. Accordingly, the Buying Agent Agreement and the Buying Agent Annual Caps will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

BACKGROUND

On 8 November 2018, the Buying Agent Agreement was entered into among the Buying Agents and Lee Kwok Trading pursuant to which Lee Kwok Trading appointed the Buying Agents to act as its buying agents for sourcing recovered paper in the United States, the United Kingdom and continental Europe.

The Group is principally engaged in the business of large-scale paper manufacturing and specializes in the production of linerboard, corrugating medium and tissue paper. Recovered paper is one of the core raw materials of the Group in its manufacturing activities. The Group has historically engaged the Existing Buying Agents to source recovered paper in the United States, the United Kingdom and continental Europe. With the impending retirement

* *For identification purposes only*

of the ultimate owner of the Existing Buying Agents, the Group entered into the Buying Agent Agreement with the Buying Agents (which have entered into agreements to employ a substantial proportion of the operation staff of the Existing Buying Agents, including key personnel who are responsible for operating the Existing Buying Agents' business) to ensure continuity and stability in the supply of recovered paper. The terms of services under the Buying Agent Agreement have been negotiated by reference to (among other things) the existing terms of services with the Existing Buying Agents.

There are two channels through which the Group purchases recovered paper. Apart from purchasing recovered paper through the Existing Buying Agents, the Group also purchased recovered paper directly from certain independent suppliers. The Group made purchases of recovered paper directly from approximately 18, 23 and 35 independent suppliers for each of the three years ended 31 December 2015, 2016 and 2017, respectively.

For the latest financial year ended 31 December 2017, the amount of recovered paper purchased by the Group from the Existing Buying Agents was approximately US\$690.0 million (approximately HK\$5,382.0 million) representing approximately 50.3% of the Group's total purchase of recovered paper in 2017, whilst the amount of recovered paper purchased directly from independent suppliers amounted to approximately US\$682.0 million (approximately HK\$5,319.6 million), representing approximately 49.7% of the Group's total purchase of recovered paper in 2017.

To the best of the knowledge, information and belief of the Directors, it is not uncommon for paper manufacturers to engage buying agents for sourcing recovered paper given (amongst other reasons) the volume of administrative work required.

Prior to the entering into of the Buying Agents Agreement, the Group had engaged the Existing Buying Agents as the Group's only buying agents for sourcing recovered paper. Each of the Existing Buying Agents is responsible for sourcing recovered paper in one particular region, namely the United States, the United Kingdom and continental Europe. The Group considers that it is sufficient to engage only one buying agent in one region in order to avoid creating upward pressure on the price for recovered paper being sought from the same source. The close business co-operation between the Group and buying agents could also put the buying agents in a stronger position to negotiate for lower shipping and logistics fees given the larger volume of recovered paper to be shipped by the same agent.

BUYING AGENT AGREEMENT

The principal terms of the Buying Agent Agreement are set out as follows:

Date: 8 November 2018

Parties: The Buying Agents; and
Lee Kwok Trading.

Nature of Transaction: Lee Kwok Trading appointed the Buying Agents to act as its buying agents for sourcing recovered paper in the United States, the United Kingdom and continental Europe.

During the term of the Buying Agent Agreement, Lee Kwok Trading may appoint other buying agents for the purchase of recovered paper. The Buying Agents may also act as buying agents for any party other than Lee Kwok Trading.

Services provided by the Buying Agents: The services of the Buying Agents to be provided to Lee Kwok Trading include, among others, the following:

- (i) to provide market information in relation to recovered paper;
- (ii) to obtain cost quotes on a daily basis from suppliers of recovered paper;
- (iii) to take orders for the purchase of recovered paper and negotiate and conclude the orders with the suppliers in strict conformity with the instructions of Lee Kwok Trading and terms agreed by Lee Kwok Trading;
- (iv) to obtain written approval from Lee Kwok Trading before placing or concluding an order for the purchase of recovered paper with the suppliers;
- (v) to co-ordinate the logistics involved in transporting or delivering recovered paper (including but not limited to organising country-wide inland trucking of recovered paper, clearance of customs, carrying out on-site inspections of recovered paper, putting the recovered paper into suitable containers so that they are ready for shipment, securing containers from suitable sources and ensuring the containers are loaded on the ships for delivery);
- (vi) to respond to enquiries from Lee Kwok Trading in relation to the purchase of recovered paper;
- (vii) to perform regular site visits and organize quality inspection and specification checks at the direction of Lee Kwok Trading;
- (viii) to allow Lee Kwok Trading to have access to the books and records of the Buying Agents for the purposes of tracking payments to and receipt by the suppliers of payments routed through the Buying Agents; and
- (ix) to provide Lee Kwok Trading with information about the delivery of recovered paper.

Term of Agreement: Three years commencing with effect from 1 January 2019 up to and including 31 December 2021.

Pricing: The total price payable by Lee Kwok Trading for each order of recovered paper will be the aggregate of (i) the purchase price of recovered paper on cost and freight basis (including local trucking freight costs and shipping costs but excluding insurance costs), (ii) a commission and (iii) the relevant fees for obtaining regulatory certifications.

The commission to be charged by the Buying Agents shall be no more than US\$5.5 per metric ton of recovered paper purchased in respect of Winfibre US and Winfibre UK, and no more than US\$6.9 per metric ton of recovered paper purchased in respect of Winfibre BV. Such commission may be adjusted from time to time during the term of the Buying Agent Agreement provided that the commission rate for 2019 shall not exceed the above rates while from 2020 onwards any increment shall not exceed 10% of the highest commission rate actually charged in the previous year.

The commission rates shall be determined and agreed by the parties based on arms' length negotiation and taking into account, among other things, the operating costs expected to be incurred by the Buying Agents in providing the recovered paper sourcing services at the relevant time.

Payment: Lee Kwok Trading is to settle payments by way of letter of credit of 120 days.

Condition precedent: The Buying Agent Agreement is conditional upon the approval of the Independent Shareholders in accordance with the Listing Rules.

The terms of the Buying Agent Agreement were concluded after arm's length negotiations and were based on normal commercial terms and in the Group's ordinary and usual course of business.

Pricing policy

Under the Buying Agent Agreement, the Buying Agents are required to report on prices for recovered paper from their supply network on a daily basis. Before placing a purchase order with the Buying Agents, the Group's procurement department will compare the total price payable to the relevant Buying Agent for each purchase (i.e. the aggregate of the purchase price of recovered paper, the commission and the relevant fees for obtaining regulatory certifications) against prices for recovered paper of comparable specifications (i) published by RISI (an independent third party which, according to its website, is a subsidiary of Euromoney Institutional Investor PLC, that publishes prices for pulp, recovered paper, paper, packaging,

timber, wood products and nonwovens market); and (ii) quoted by at least two independent direct suppliers. In addition, the Group will prepare price tables on a daily basis setting out the maximum allowable purchase price of recovered paper at a particular time. The price tables will be prepared based on the price information gathered from the Buying Agents, RISI index and other market information and will be approved by the head of procurement of the Group. The procurement department will place an order with the Buying Agents only if (i) the total price payable to the relevant Buying Agent for a specified specification of recovered paper under the terms of the Buying Agent Agreement is no less favourable than those which are available from independent suppliers for relevant delivery dates and prices as indicated by the RISI index price, and (ii) the total price payable to the relevant Buying Agent falls below the relevant maximum allowable price as set out in the price tables.

Internal control

The relevant personnel of the business department of the Company will conduct regular checks on a monthly basis to review and assess whether the continuing connected transactions under the Buying Agent Agreement are conducted in accordance with the terms of the Buying Agent Agreement and will also regularly (on a daily basis as part of its policy to prescribe the daily purchase price limit of the Group as referred to in paragraph headed “Pricing Policy” above) update the market price for the purpose of considering if the price for a specific transaction is fair and reasonable and in accordance with the pricing policy.

Both the sales team and the marketing team of the Group will on a monthly basis gather market intelligence by way of research and/or investigation to ascertain the quality of the recovered paper compared to similar products in the market.

The Company will conduct periodic half-yearly reviews of the transactions conducted under the Buying Agent Agreement, to consider (i) effective implementation of the pricing policies and the payment methods and (ii) identification of management weaknesses, and recommendation of improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable.

The Company will conduct periodic quarterly evaluation of the balances of annual caps under the Buying Agent Agreement.

On an ongoing basis throughout the term of the Buying Agent Agreement, the Company will engage an independent third party with appropriate accounting qualification to conduct annual review of the transactions under the Buying Agent Agreement in order to come to a view as to whether the purchase prices paid to the Buying Agents are fair and reasonable.

The independent non-executive Directors of the Company will conduct an annual review of the transactions under the Buying Agent Agreement pursuant to Rule 14A.55 of the Listing Rules.

The auditor of the Company will conduct an annual review of the transactions under the Buying Agent Agreement pursuant to Rule 14A.56 of the Listing Rules.

Considering the pricing policies and internal control measures outlined above, the Directors of the Company believe that the price determination procedures outlined above are sufficient to ensure that the transactions contemplated under the Buying Agent Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

ANNUAL CAPS

The Buying Agent Annual Caps under the Buying Agent Agreement for each of the three financial years ending 31 December 2019, 2020 and 2021 are as follows:

Year ending 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021
US\$900,000,000 (approximately HK\$7,020,000,000)	US\$900,000,000 (approximately HK\$7,020,000,000)	US\$900,000,000 (approximately HK\$7,020,000,000)

The Buying Agent Annual Caps have been determined by reference to:

- (i) the amount of historical transactions between the Group and the Existing Buying Agents. The historical transaction amounts between the Group and the Existing Buying Agents were approximately US\$638.9 million (approximately HK\$4,983.4 million), US\$616.1 million (approximately HK\$4,805.6 million) and US\$690.0 million (approximately HK\$5,382.0 million) and US\$371.0 million (approximately HK\$2,893.8) million) for the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018, respectively;
- (ii) the estimated demand (in terms of metric tons) for recovered paper by the Group. The Group purchased approximately 3.7 million metric tons, 3.6 million metric tons and 3.1 million metric tons of recovered paper through the Existing Buying Agents for the years ended 31 December 2015, 2016 and 2017, respectively. The estimated amount of recovered paper to be purchased by the Group through the Buying Agents is expected to be approximately 2.9 million, 3.4 million and 3.4 million metric tons for the years ending 31 December 2019, 2020 and 2021, respectively; and
- (iii) the estimated price volatility of recovered paper. In 2017, the average prices of recovered paper sourced by the Group from the United States, the United Kingdom and continental Europe increased between approximately 26.2% and 33.1%, as compared to the average prices for 2015.

In determining the proposed annual caps under the Buying Agent Agreement, the parties have also taken into account the assumption that during the term of the Buying Agent Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group or the Buying Agents.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE BUYING AGENT AGREEMENT

The ultimate owner of the Existing Buying Agents (which have worked with the Group for many years) is Mr. Albert Chiu Tung Choi. Mr. Albert Chiu Tung Choi is (a) the husband of the daughter of the uncle of Dr. Lee Wan Keung (who is a substantial shareholder of the Company); (b) the husband of the daughter of the great-uncle of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (who are both executive Directors); and (c) the brother-in-law of the wife of Professor Poon Chung Kwong, a non-executive Director. Mr. Albert Chiu Tung Choi is a distant relative (but not an “associate” under the Listing Rules) of Dr. Lee Wan Keung Patrick, and his sons, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, and Professor Poon Chung Kwong.

Mr. Albert Chiu Tung Choi has informed the Group of his wish to retire. The primary reason for entering into of the Buying Agent Agreement is therefore to ensure continuity and stability of the supply of recovered paper from the United States, the United Kingdom and continental Europe from the Buying Agents (who are connected persons of the Company), who have entered into agreements to employ a substantial proportion of the operation staff of the Existing Buying Agents (including key personnel which are responsible for operating the Existing Buying Agents’ business). These personnel are the holders of the key networks of sourcing recovered paper from the sources of the Existing Buying Agents, and have been responsible for the overall operations of the Existing Buying Agents (including procurement from the source, price negotiation, logistics arrangement and regulatory clearance for delivery) in order to supply the Group historically. Whilst the ultimate owners of the buying agents have changed, the management and key operating employees of the buying agents will remain unchanged at the Buying Agents. On such basis, the Directors consider that the proposed arrangements would ensure there to be continuity and stability in the supply of recovered paper by the Buying Agents to the Group. In any event, the Group is not precluded to source recovered paper from other sources should the need arises.

Having taken into account legal, operational, financial and business risks associated with establishing its own recovered paper sourcing operations in the United States, the United Kingdom and continental Europe to undertake on the ground identification of suppliers, which include countrywide domestic households and commercial suppliers (such as supermarket chains and waste management companies), site visits, price seeking and negotiation, and recovered paper collection, and delivery logistics, and the risks of non-compliance with the relevant laws and regulations relating to the import of recovered paper, the Company considers it in the best interests of the Group to enter into the Buying Agent Agreement because that would continue to give the Group access to the supply network of the Existing Buying Agents which will be substantively taken over by the Buying Agents, and transparency in pricing in terms of recovered paper cost.

The Directors are of the view that the Buying Agent Agreement is in the ordinary and usual course of business of the Group. The Directors are also of the view that the terms of the Buying Agent Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Each of the Buying Agents is ultimately owned as to 60% and 40% by Mr. Ng Yu Hung and Ms. Chan Wai Man Vivian, respectively.

As Mr. Ng Yu Hung is a stepbrother of Dr. Lee Wan Keung Patrick (who is a substantial shareholder of the Company), Mr. Ng Yu Hung and the Buying Agents are associates of Dr. Lee Wan Keung Patrick under the Listing Rules. Accordingly, the Buying Agents are connected persons of the Company under the Listing Rules and the transactions under the Buying Agent Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Ms. Chan Wai Man Vivian is the spouse of Mr. Ng Hok She Harry. Mr. Ng Hok She Harry is Head of Quality Assurance of the Group and a director of Guangdong Lee & Man Tissue Manufacturing Limited, which is an indirect wholly-owned subsidiary of the Company. Mr. Ng Hok She Harry is also the son of the brother of Mr. Ng Yu Hung. Accordingly Ms. Chan Wai Man Vivian is a distant relative (but not an “associate” under the Listing Rules) of Dr. Lee Wan Keung Patrick, Dr. Lee Man Chun, Raymond and Mr. Lee Man Bun.

The relevant percentage ratios under the Listing Rules for the Buying Agent Annual Caps are, on an annual basis, more than 5%. Accordingly, the Buying Agent Agreement and the Buying Agent Annual Caps will be subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under the Listing Rules. Dr. Lee Wan Keung Patrick, together with Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (who are sons and associates of Dr. Lee Wan Keung Patrick) and Ms. Lee Rosanna Man Lai (who is a daughter and associate of Dr. Lee Wan Keung Patrick), are considered to have a material interest in the Buying Agent Agreement and will abstain from voting at the EGM of the Company to approve the Buying Agent Agreement. As at the date of this announcement, (i) Dr. Lee Wan Keung Patrick held 507,342,000 Shares (representing approximately 11.55% of the total issued shares of the Company); (ii) Dr. Lee Man Chun Raymond held 1,358,991,040 Shares (representing approximately 30.93% of the total issued shares of the Company); (iii) Mr. Lee Man Bun held 1,262,932,960 Shares (representing approximately 28.75% of the total issued shares of the Company); and (iv) Ms. Lee Rosanna Man Lai held 4,564,865 Shares (representing approximately 0.10% of the total issued shares of the Company).

GENERAL

The principal business of Lee Kwok Trading is the procurement of raw materials.

The Buying Agents are principally engaged in the business of sourcing recovered paper.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, who are executive Directors of the Company and associates of Dr. Lee Wan Keung Patrick, had abstained from voting on the board resolutions of the Company in relation to the Buying Agent Agreement. Save as aforesaid, no other Directors have any material interest in the Buying Agent Agreement or were required to abstain from voting at the board meetings of the Company in relation to the same. Mr. Li King Wai Ross, a Director and son-in-law of Dr. Lee Wan Keung Patrick, had voluntarily abstained from voting on the board resolutions of the Company in relation to the Buying Agent Agreement to avoid the perception of conflict of interest.

The Company has set up the Independent Board Committee to advise the Independent Shareholders in respect of the Buying Agent Agreement and the related annual caps. The Company has appointed Somerley as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Buying Agent Agreement and the related annual caps.

A circular containing, among other things, details of the Buying Agent Agreement, a letter from Somerly to advise the Independent Board Committee and the Independent Shareholders on the terms of the Buying Agent Agreement, and a notice of the EGM to be convened to approve the Buying Agent Agreement are expected to be despatched to the Shareholders on or before 16 November 2018.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' right to attend and vote at the EGM to be held on 5 December 2018, the register of members of the Company will be closed from 30 November 2018 to 5 December 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 29 November 2018.

“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Buying Agent(s)”	Winfibre BV, Winfibre UK and Winfibre US;
“Buying Agent Agreement”	the buying agent agreement dated 8 November 2018 entered into among the Buying Agents and Lee Kwok Trading in relation to the sourcing of recovered paper;
“Buying Agent Annual Caps”	the maximum annual consideration (being the aggregate of the purchase price of recovered paper, the commissions and the relevant fees for obtaining regulatory certifications) to be paid to the Buying Agents for the sourcing of recovered paper for Lee Kwok Trading under the Buying Agent Agreement for each of the three financial years ending 31 December 2019, 2020 and 2021, details of which are set out in this announcement;
“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 transaction”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;

“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Buying Agent Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps;
“Existing Buying Agents”	Ralison, Mark Lyndon BV and Mark Lyndon UK;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of People’s Republic of China;
“Independent Board Committee”	a board committee comprising Mr. Wong Kai Tung Tony, Mr. Peter A. Davies, and Mr. Chau Shing Yim David and which will make recommendations to the Independent Shareholders in respect of the Buying Agent Agreement and the Buying Agent Annual Caps;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the resolutions with respect to the Buying Agent Agreement;
“Lee Kwok Trading”	Lee Kwok (Macao Commercial Offshore) Trading Limited, a limited liability company incorporated in Macau and an indirect wholly-owned subsidiary of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mark Lyndon BV”	Mark Lyndon International BV, a limited liability company incorporated in the Netherlands;
“Mark Lyndon UK”	Mark Lyndon Paper Enterprises (UK) Limited, a limited liability company incorporated in the United Kingdom;
“Ralison”	Ralison International Inc., a limited liability company incorporated in the United States;
“SFC”	Securities and Futures Commission of Hong Kong;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share of HK\$0.025 each in the issued share capital of the Company;
“Shareholder(s)”	holder(s) of shares of the Company;

“Somerley”	Somerley Capital Limited, being a corporation licensed by the SFC for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Buying Agent Agreement and the transactions contemplated thereunder and the Buying Agent Annual Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Winfibre BV”	Winfibre B.V., a limited liability company incorporated in the Netherlands;
“Winfibre UK”	Winfibre (U.K) Company Limited, a limited liability company incorporated in the United Kingdom;
“Winfibre US”	Winfibre (U.S.) Incorporated, a limited liability company incorporated in the United States; and
“%”	per cent.

For illustration purposes only, the exchange rate of US\$1 = HK\$7.8 has been adopted for translating US\$ into HK\$ in this announcement.

By order of the Board
Lee & Man Paper Manufacturing Limited
Lee Man Chun Raymond
Chairman

Hong Kong, 8 November 2018

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Li King Wai Ross, 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.