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If you have sold or transferred all your securities in **Lee & Man Paper Manufacturing Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 14 of this circular and a letter from Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 5 December 2018 at 3:00 p.m. is set out on pages 31 to 32 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

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DEFINITIONS

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

“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 commission 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 circular;
“close associates”	has the meaning ascribed thereto in the Listing Rules;
“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 the PRC;

DEFINITIONS

“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;
“Latest Practicable Date”	12 November 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“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;
“PRC”	the People’s Republic of China;
“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;

DEFINITIONS

“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 circular.

LETTER FROM THE BOARD



理文造紙有限公司*
Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

Executive Directors:

Dr. Lee Man Chun Raymond (*Chairman*)
Mr. Lee Man Bun
Mr. Li King Wai Ross

Non-Executive Director:

Professor Poon Chung Kwong

Independent Non-executive Directors:

Mr. Wong Kai Tung Tony
Mr. Peter A. Davies
Mr. Chau Shing Yim David

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Office in Hong Kong:

5th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

15 November 2018

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement made by the Company dated 8 November 2018. On 8 November 2018, Lee Kwok Trading, an indirect wholly-owned subsidiary of the Company, entered into the Buying Agent Agreement with the Buying Agents.

The purpose of this circular is (i) to provide you with further information in relation to the transactions contemplated under the Buying Agent Agreement; (ii) to set out the opinions and recommendations of the Independent Board Committee and Somerley; and (iii) to give you notice of the EGM at which the resolutions set out therein will be proposed. The EGM will be held on 5 December 2018 for the purpose of, among others, obtaining the approval from the Independent Shareholders in respect of the subject transactions.

* *For identification purposes only*

LETTER FROM THE BOARD

BACKGROUND

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 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.

LETTER FROM THE BOARD

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;

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 Patrick (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.

LETTER FROM THE BOARD

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 Latest Practicable Date, (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.

LETTER FROM THE BOARD

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.

THE EGM

The following are the details of the EGM:

Date	5 December, 2018
Time	3:00 p.m.
Venue	SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong

The notice convening the EGM is set out on pages 31 to 32 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit it 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, as soon as possible and in any event so as to arrive not less than 48 hours before the time appointed for holding the EGM. The return of a form of proxy will not preclude you from attending and voting in person at the EGM should you so desire, and in which event, the instrument appointing a proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' right to attend and vote at the EGM, 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.

POLL PROCEDURE

All votes of the Shareholders at the EGM shall be conducted by way of poll in accordance with the Listing Rules. After the conclusion of the EGM, the poll results will be announced by the Company in compliance with the Listing Rules.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 14 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolutions to approve the transactions contemplated under the Buying Agent Agreement.

The advice of Somerley to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Buying Agent Agreement are set out on pages 15 to 26 of this circular.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully
For and on behalf of
Lee & Man Paper Manufacturing Limited
Lee Man Chun Raymond
Chairman



理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

15 November 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolutions to approve the transactions contemplated under the Buying Agent Agreement, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Somerley in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Buying Agent Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole, as set out in the “Letter from Somerley” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Somerley in relation thereto as stated in its letter, we consider the terms of the transactions contemplated under the Buying Agent Agreement and its annual caps to be fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated under the Buying Agent Agreement and the Buying Agent Annual Caps.

Yours faithfully

Independent Board Committee

Mr. Wong Kai Tung Tony

Independent

Non-executive Director

Mr. Peter A. Davies

Independent

Non-executive Director

Mr. Chau Shing Yim David

Independent

Non-executive Director

* *For identification purposes only*

LETTER FROM SOMERLEY

The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

15 November 2018

To: the Independent Board Committee and the Independent Shareholders of Lee & Man Paper Manufacturing Limited

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into of the Buying Agent Agreement and the transactions contemplated thereunder together with the proposed annual caps of the transactions under the Buying Agent Agreement for each of the three years ending 31 December 2021 (i.e. the Buying Agent Annual Caps). Details of the terms of the Buying Agent Agreement (together with the Buying Agent Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 15 November 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the letter from the Board, with the impending retirement of the ultimate owner of the Existing Buying Agents, the Group proposes to enter 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 which are responsible for operating the Existing Buying Agents' business) to ensure the 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.

As stated in the letter from the Board, 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.

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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 Latest Practicable Date, (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).

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David, has been formed to make recommendations to the Independent Shareholders in respect of the terms of the Buying Agent Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, the Buying Agents, or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Buying Agent Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps). Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Buying Agents, or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, amongst others, the Buying Agent Agreement, the agreements with the Existing Buying Agents, the annual report of the Company for the year ended 31 December 2017 and the information contained in the Circular. We have also discussed with and reviewed information provided by the management of the Group regarding the businesses of the Group, the prospects of conducting the Buying Agent Agreement and the transactions contemplated thereunder.

We have relied on the information and facts supplied, and the opinions expressed to us, by management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the terms of the Buying Agent Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps), we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in the business of large-scale paper manufacturing and specialises in the production of linerboard, corrugating medium and tissue paper.

2. Information on the Buying Agents

The Buying Agents have entered into agreements to employ a substantial proportion of the operation staff of the Existing Buying Agents, including key personnel responsible for operating the Existing Buying Agents' business and procuring recovered paper for the Group.

3. Reasons for entering into of the Buying Agent Agreement

As set out in the letter from the Board, 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 Patrick (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.

The Buying Agents have entered into employment contracts with the management and key personnel of the Existing Buying Agents. We were provided with the organization charts of the Existing Buying Agents and noted that Ralison, Mark Lyndon BV and Mark Lyndon UK all had three key functions including procurement, logistics and administration. We have obtained the employment contracts signed with staff of the Existing Buying Agents and noted that the management and key personnel covering each function with irreplaceable expertise of each Existing Buying Agent would become the employees of the Buying Agents, except that the Buying Agents chose not to sign employment contracts with any logistic staff of Ralison as the Buying Agents are confident to find better replacement for this function.

Before entering into the Buying Agent Agreement, the Company has 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. Such operations include undertaking on the ground identification of ultimate suppliers, which include countrywide domestic household and commercial suppliers (such as supermarket chains and waste management companies), site visits, price seeking and negotiation, recovered paper collection, and

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delivery logistics. There are also risks of non-compliance with the relevant laws and regulations relating to the import of recovered paper. Besides, through discussion with the management of the Group, we are advised that it is not uncommon for paper manufacturers to engage buying agents for sourcing recovered paper given the above substantive volume of administrative work required. We are also aware that Nine Dragons Paper (Holdings) Limited (2689.HK), the leading paper manufacturer in the PRC, has also engaged buying agents, which are its connected persons, for sourcing recovered paper. Based on these factors, the Company considers it in the best interests of the Group to enter into the Buying Agent Agreement to 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 will provide transparency in pricing in terms of recovered paper cost.

Based on the above, we concur with the Directors that the entering into of the Buying Agent Agreement to appoint 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 which are responsible for operating the Existing Buying Agents' business)) to succeed the Existing Buying Agents is in the interest of the Company by securing the continuity and stability of the supply of recovered paper to the Group and ensuring its smooth operation going forward.

4. Principal terms of the Buying Agent Agreement

Terms

Pursuant to the Buying Agent Agreement, Lee Kwok Trading appoints 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 will be valid for a term of three years from 1 January 2019 to 31 December 2021. 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.

Pricing policy

i. Commission and regulatory fee

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 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 relevant fees for obtaining regulatory certifications are required for recovered paper to be imported to the PRC. According to the service quotation list

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published on the CCIC (China Certification & Inspection Group) website, the relevant fees for obtaining regulatory certifications are charged to all suppliers on the same basis by the CCIC. Details of the quantity, price, specifications, standards, delivery time and settlement of the recovered paper supplied shall be stated in an individual purchase order placed by Lee Kwok Trading.

Under the Existing Buying Agent Agreements, the Existing Buying Agents are also entitled to mark up of US\$2-5 per metric ton (which could be revised on a regular basis) over the price of each purchase order. In light of the campaign against “foreign garbage” in the PRC as announced in July 2017, additional time and resources had been incurred by the Existing Buying Agents on the inspection and sourcing of the recovered paper and the commission had been adjusted accordingly. In 2017, the commission paid to the Existing Buying Agents had been adjusted substantially from US\$2.8 to US\$4.8 (about 71.4% increase) in the United States, from US\$2.6 to US\$4.1 (about 57.7% increase) in the United Kingdom and from US\$3.0 to US\$4.0 (about 33.3% increase) in continental Europe. Having taken into account the increases in commission rates in 2017 and the further cost to be incurred by the Buying Agents as a result of the latest import restrictions imposed in the PRC in May 2018 as detailed in section headed “6. The Buying Agent Annual Caps” below, the parties under the Buying Agent Agreement have agreed the rates of commission to be no more than US\$5.5 per metric ton of recovered paper in the United States and the United Kingdom and no more than US\$6.9 per metric ton of recovered paper in continental Europe for 2019. As advised by the management of the Group, the commission to be paid to the Buying Agent in continental Europe will be higher than that to be paid to the Buying Agents in the United States and the United Kingdom because extra costs (for example, transportation cost and labour cost) would be incurred due to more widely dispersed recovered paper suppliers in continental Europe. Based on the information provided by the Company, excluding the periods when commission waiver was granted in view of market difficulty, the commission paid to the Existing Buying Agents climbed from the lowest in 2012 to the highest in 2017, being US\$2.5 to US\$4.8 in the United States, US\$1.6 to US\$4.1 in the United Kingdom and US\$2.0 to US\$4.0 in continental Europe, representing compound annual growth rates of 13.9%, 20.7% and 9.9% respectively.

Given (i) the sum of the purchase price, the commission and the relevant fees for obtaining regulatory certifications being not higher than those offered by the independent third party suppliers as stipulated under the pricing policy set out below; (ii) the commission rates of no more than US\$5.5 and US\$6.9 for 2019, which have been determined after arm’s length negotiations between the parties having taken into account the rising cost of the Buying Agents’ operation; and (iii) the compound annual growth rate of the historical commission paid to the Existing Buying Agents in 2012-2017 of 9.9% to 20.7%, we consider the rates of commission of no more than US\$5.5 per metric ton for recovered paper sourced in the United States and the United Kingdom and no more than US\$6.9 per metric ton for those sourced in continental Europe under the Buying Agent Agreement for 2019 and the annual increment thereafter of not more than 10% to be fair and reasonable.

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ii. Total price

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 publishing 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 these available from independent suppliers for relevant delivery dates and prices as indicated by the RISI index, 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.

As advised by the management of the Group, the Group normally classifies (i) the counterparties with which the purchase orders are billed by splitting commission and their purchase cost as "**buying agents**"; and (ii) the counterparties with which the purchase orders are billed in a whole lump sum without splitting commission and their purchase cost as "**suppliers**". There have been only a few sizeable buying agents/suppliers for recovered paper in each of the United States, the United Kingdom and continental Europe market and each of them has strong ties with a specific paper manufacturer. The close business co-operation between a paper manufacturer and a buying agent/supplier could put the buying agent/supplier in a stronger position to negotiate for lower shipping and logistics fees given the large volume of recovered paper to be shipped by the same agent/supplier. On the other hand, the paper manufacturer would also be able to bargain a better price with the buying agent/supplier at the same time. Due to the close business relationship with the Existing Buying Agents, the Group would be able to obtain the actual cost of recovered paper procured by the Existing Buying Agents which is beneficial to the Group in terms of price negotiations but other suppliers would only provide quotation to the Group for purchase orders at an all-in price due to commercial reasons. Taking the above factors into consideration, the Group had not engaged other buying agents but other suppliers for the supply of recovered paper in the past and therefore no commission rate offered by the independent buying agents is available for comparison purpose. In response to the situation described above, the Company adopts an alternative approach to compare the total purchase price (comprising the

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purchase price, commission and the relevant regulatory fees) against the purchase price offered by independent suppliers.

We have obtained and reviewed 10 samples of purchase orders and commission invoices between the Group and the Existing Buying Agents, 11 samples of purchase orders between the Group and the independent third party suppliers and the corresponding daily maximum allowable price tables in 2016, 2017 and 2018. We noted that the commission charged by the Existing Buying Agents as set out in the samples has increased from US\$2.8 per metric ton in 2016 to US\$4.80 per metric ton in 2018 and the sum of the purchase price and the commission under the purchase orders with the Existing Buying Agents is lower than the purchase price set out in the sample purchase orders with the independent third party suppliers and the maximum price set out in the daily maximum allowable price table, except the purchase price of one purchase order with an independent third party supplier for purchase amount of 1,000 metric tons was lower than that with Existing Buying Agents in July 2016. As advised by the management of the Group, in rare cases, some small suppliers would offer exceptional lower prices to speed up the stock turnover. As this kind of case is rare and the purchase amount is usually small compared with the purchase amount from the Existing Buying Agents, and we noted that the purchase price of another sample with an independent third party supplier for larger purchase amount of 2,000 metric tons in the same month was higher than the sum paid to the Existing Buying Agents, we are of the view that the sum of the purchase price and the commission paid to the Existing Buying Agents was within the price range offered by independent third party suppliers, and thus was in line with the pricing policy stated above.

Since the terms of the Buying Agent Agreement, which were arrived at after arm's length negotiations between Lee Kwok Trading and the Buying Agents and given the pricing of the recovered paper will be determined on an arm's length basis and at rates (being the sum of the unit price, a commission and the relevant fees for obtaining regulatory certifications) not higher than those offered by independent third party suppliers in the relevant jurisdictions and the maximum prices set out in the daily maximum price tables, we consider the terms of the Buying Agent Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

5. Internal control

As stated in the letter from the Board, 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) 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.

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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. 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 Agents Agreement.

On an ongoing basis throughout the term of the Buying Agent Agreement, the Company will engage an independent third party with appropriate accounting qualifications 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.

For due diligence purposes, we have discussed with the management of the Group on the internal control procedures and noted that the internal control procedures to be implemented would be more comprehensive than those applied to Existing Buying Agents but similar to those of other Hong Kong listed companies. We have obtained and reviewed 10 samples of purchase orders and commission invoices between the Group and the Existing Buying Agents, 11 samples of purchase orders between the Group and the independent third party suppliers and the corresponding daily maximum allowable price tables in 2016, 2017 and 2018, and noted that the Company has already had internal control in place to make sure that the sum of the purchase price and the commission under the purchase orders with the Existing Buying Agents is lower than the purchase price set out in the sample purchase orders with the independent third party suppliers and the maximum price set out in the daily maximum allowable price table. Furthermore, we have reviewed the qualifications of the relevant personnel including the front-line staff and management-level staff who would conduct the internal reviews and noted that they are experienced with an average of 10 years working experience in the papermaking industry. In light of the above, we are of the view that the internal control procedures will be adequate 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 the Shareholders as whole.

Given (i) regular checks conducted by relevant personnel and management of the Group; (ii) a professional accounting firm will conduct an annual review on the pricing of the transactions under the Buying Agent Agreement; (iii) the independent non-executive Directors will, pursuant to Rule 14A.55 of the Listing Rules and as stated in the letter from the Board of the Circular, review, among other things, whether the transactions contemplated under the Buying Agent Agreement are conducted on normal commercial terms; and (iv) the auditors of the Company will, for the purpose of Rule 14A.56 of the Listing Rules, review, among other things, whether the transactions contemplated under the Buying Agent Agreement are conducted in accordance with its terms, we are of the view that adequate measures have been put in place, as required under the Listing Rules mentioned above, to monitor the transactions contemplated under the Buying Agent Agreement in order to protect the interests of the Company and the Independent Shareholders.

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6. The Buying Agent Annual Caps

Set out below are (i) the historical amounts with the Existing Buying Agents for each of the two years ended 31 December 2017 and 8 months ended 31 August 2018; (ii) the estimated amount to be purchased through the Existing Buying Agents for the 4 months ending 31 December 2018; and (iii) the proposed Buying Agent Annual Caps for each of the three years ending 31 December 2019, 2020 and 2021:

	For the financial year ended 31 December		For 8 months ended 31 August	For 4 months ending 31 December	For the financial year ending 31 December		
	2016 Actual amount	2017 Actual amount	2018 Actual amount	2018 Estimated amount	2019 Estimated amount	2020 Estimated amount	2021 Estimated amount
Quantity (<i>million metric tons</i>) (<i>Note</i>)	3.61	3.12	1.91	0.96	2.94	3.42	3.42
Average price (<i>US\$/metric ton</i>) (<i>Note</i>)	170.6	221.3	194.3	242.3	276.4	258.7	258.7
Historical amounts (Existing Buying Agents)/projected purchase amounts (<i>US\$' million</i>) (<i>Note</i>)	616.1	690.0	371.0	231.4	811.3	883.7	883.7
Buffer (<i>US\$' million</i>)	n.a.	n.a.	n.a.	n.a.	88.7	16.3	16.3
Buying Agent Annual Caps (<i>US\$' million</i>)	n.a.	n.a.	n.a.	n.a.	900.0	900.0	900.0

Note: Quantity and average price in the above table have been subject to rounding adjustments. Accordingly, figures shown as historical amounts/projected purchase amounts may not be an arithmetic multiplication of the aforementioned figures.

Historical purchase amounts

We have reviewed and discussed with the management of the Group the actual purchase of the recovered paper through the Existing Buying Agents for the years ended 31 December 2016 and 2017 and 8 months ended 31 August 2018. For the years ended 31 December 2016 and 2017, the Group imported 3.61 million metric tons and 3.12 million metric tons of recovered paper through the Existing Buying Agents with the average purchase price of US\$170.6 per metric ton and US\$221.3 per metric ton, respectively. Based on the information provided by the Group, about 59% of the recovered paper was supplied by overseas suppliers and the balance by the PRC suppliers in 2017 and the average prices were US\$219.5 per metric ton and US\$249.8 per metric ton from overseas and the PRC respectively. The price increase in the PRC in 2017, as advised by the management, was mainly due to the decrease of imports of recovered paper into the PRC. In July 2017, it was announced that the PRC would ban the import of 24

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types of waste (including plastic, paper and glass) by the end of the year as part of a campaign against “foreign garbage”. Following the announcement of such ban, the Group imported only high-fiber recovered paper (which contains less waste content but is higher in price) since the beginning of the second half of 2017 resulting in, together with the price increase in the PRC, a higher average purchase price in 2017. Based on the information provided by the Company, about 50% of the total recovered paper purchased through the Existing Buying Agents was sourced in the United States and the rest was in the United Kingdom and continental Europe. The RISI published reports on the prices across different types of recovered paper in different regions on weekly and monthly basis. Based on such reports, we noted that the prices of certain types of recovered paper showed significant increase in the United States and Europe in July 2017 and then retreated slightly in the United States and significantly in Europe in August to October 2017. Certain types of recovered paper price in the United States and Europe resumed its downtrend at the beginning of 2018, which could explain the drop in the average purchase price for the 8 months ended 31 August 2018, which was US\$194.3 per metric ton, against that for the year ended 31 December 2017, which was US\$221.3 per metric ton as set out in the table above.

In May 2018, the PRC Customs released the “Notice of the General Administration of Customs on Making Efforts to Accomplish the Pre-shipment Inspection Work for Imports of the United States Waste Raw Materials” and in June 2018, CCIC European Office released the “Notice of Implementation of New Pre-shipment Inspection Fees for Waste Paper in Europe” (“**Notices**”), with immediate effect. According to the Notices, the CCIC Canada office and European Office will conduct the mandatory pre-shipment inspection work for United States and European shippers. According to the management of the Group, the PRC has lowered the imported recovered paper contaminated threshold from 1.5% to 0.5% in early 2018. In June 2018, the State Council released the “Guideline for Enhancing Environmental Protection and Winning the Battle against Air, Water and Soil Pollution” pursuant to which it was expected to tighten control over solid waste imports to the PRC. Based on the RISI reports, the prices started to increase across different types of recovered paper in the United States and Europe, in some cases to levels even higher than those in July 2017.

Buying Agent Annual Caps

We have also reviewed and discussed with the management of the Group the projection of purchase of recovered paper through the Existing Buying Agents or Buying Agents for the 4 months ending 31 December 2018 and the three years ending 31 December 2019, 2020 and 2021. In light of the stringent restrictions on imports of recovered paper in the PRC, the Group has been considering alternatives to deal with the situation. At present, the Group has five production facilities in the PRC, namely Jiangsu, Chongqing, Jiangxi, Guangdong and Dongguan. In 2017, the Group’s production facilities in Hau Giang, Vietnam began operation with an annual production capacity of 400,000 metric tons. The annual production capacity of the Group’s packaging paper operation exceeded 6 million tonnes in 2017. As advised by the management of the Group, the Group is considering expansion of production facilities in Asia in view of the stringent waste imports policy in the PRC. The Group now plans to add a new production line with an annual production capacity of 400,000 metric tons at the Vietnam factory in the second half of 2019.

According to the management of the Group, the projected purchase of high-fiber recovered paper through Existing Buying Agents/Buying Agents would decrease to 2.87 million metric tons in total in 2018 (comprising 1.91 million metric tons for the 8 months ended 31 August 2018 and 0.96 million metric tons for the 4 months ending 31 December 2018) and 2.94 million metric tons in 2019 respectively due to the tightened control over solid waste imports into the PRC. Based on the RISI reports, the prices

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of the recovered paper in the PRC have increased substantially across different types during the period from July 2017 to August 2018, with increases ranging from 56% to 69%. To encounter the rising price of recovered paper in the PRC brought on by the more stringent import control on foreign waste, the Company plans to gradually turn to overseas suppliers for high-fiber recovered paper with relatively reasonable prices to reduce the raw material costs and increase the yield factor of raw materials. As a result, the weight of the import quantity of recovered paper would increase from 51% of the total purchase of recovered paper in 2018, to 66% of the total purchase of recovered paper in 2019 and then to stabilise at 78% of the total purchase of recovered paper in 2020 and 2021. The continuing change in the weight of purchase portfolio towards high-fiber overseas recovered paper and the commencement of a new production line in Vietnam at the end of 2019 needing overseas low-fiber recovered paper leads to a decrease in projected PRC domestic purchases in 2019, 2020 and 2021 respectively.

As advised by the management of the Group, the price for recovered paper has been volatile mainly due to the change of government policies and market conditions. Based on the RISI reports, the price of main types of recovered paper fluctuated from the lowest to the highest of 33% and 62% in the United States and of 37% and 62% in Europe in 2016 and 2017 respectively while the average purchase price of import recovered paper through Existing Buying Agents increased around 30% from 2016 to 2017. Therefore, the price for recovered paper is expected to remain turbulent in the next few years given the uncertainties over the global economy and possible additional stringent restrictions on waste import in the PRC. The continuing tax reforms and other economic policies implemented by the United States government in the near future are expected to boost the United States economy, spur the demand for paper-related products and thus support the increase in price for recovered paper. At the same time, the more stringent waste import restrictions in the PRC starting from 2017 has further pushed up the purchase price for recovered paper in the PRC and abroad. Taking the above two factors into consideration and with reference to the average purchase price of US\$221.3 per metric ton through the Existing Buying Agents in 2017 and the recent increase in prices of the recovered paper as set out in the RISI reports, the management of the Group, based on their knowledge and understanding of recovered paper market, projected the average purchase price of import recovered paper through the Existing Buying Agents/Buying Agents to be US\$242.3 per metric ton in the remaining 4 months ending 31 December 2018 and US\$276.4 per metric ton in 2019, representing a year-on-year increase of about 31%. Given (i) the prices of the major recovered paper products sourced by the Group as set out in the RISI reports ranged from US\$169 to US\$230 per metric ton and US\$166 to US\$269 per metric ton in the 8 months ended 31 August 2018; and (ii) an annual increase in average purchase price of import recovered paper through the Existing Buying Agents of 30% in 2017, the adoption of US\$242.3 per metric ton in the purchase projection for the remaining 4 months in 2018 and a 31% annual growth rate for 2019, in our view, are reasonable. As advised by the management of the Group, a new production line with an annual production capacity of 400,000 metric tons at the Vietnam factory will commence operation in the second half of 2019. The Group plans to purchase relatively low-fiber recovered paper from the United States and the United Kingdom for processing in Vietnam factory in 2020 and 2021. This leads to a slight decrease of 6.4% in the estimated average purchase price of import recovered paper through Buying Agents to US\$258.7 per metric ton in 2020 and 2021.

A buffer of approximately US\$88.7 million or 10% has been provided in 2019 because of the adjustment in the purchase portfolio and a thin buffer of approximately US\$16.3 million or 2% has been provided in 2020 and 2021 in order to allow flexibility to the Group's operations and to accommodate any unexpected increases in the transaction amounts (as a result of any unexpected increase in the market demand) or the purchase price of recovered paper or the exchange rate.

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Having considered (i) the projected import quantity of the recovered paper through Existing Buying Agents/Buying Agents which has been arrived at based on the tightened control over solid waste imports in the PRC and strategic adjustment in the purchase portfolio towards high-fiber overseas recovered paper in 2018 and 2019 and lower-fiber overseas recovered paper in 2020 and 2021; (ii) the estimated average purchase price of import recovered paper through Buying Agents has been determined with reference to the average purchase price through the Existing Buying Agents in 2017 and the recent prices set out in the RISI reports and having taken into account the government policies and market conditions; (iii) the buffer for each of the three years ending 31 December 2021 accommodates the adjustment in the purchase portfolio and facilitates operation flexibility; and (iv) the reasons as explained above for entering into of the Buying Agent Agreement, we consider that the Buying Agent Annual Caps under the Buying Agent Agreement to be fair and reasonable so as far as the Company and the Independent Shareholders are concerned.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Buying Agent Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Buying Agent Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps) are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the EGM in relation to the terms of the Buying Agent Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps).

Yours faithfully
For and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. DISCLOSURE OF INTERESTS**1. Interests and short positions of Directors and chief executive in the share capital of the Company and its associated corporation**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules were as follows:

Directors’ interests in the Shares

Name of Director	Long Position/ Short Position		Number of Shares held	Approximate
	Capacity			% of total issued Shares (Note)
Dr. Lee Man Chun Raymond	Long Position	Beneficial owner	1,358,991,040	30.93%
Mr. Lee Man Bun	Long Position	Beneficial owner	1,262,932,960	28.75%
Mr. Li King Wai Ross	Long Position	Held by spouse	4,564,865	0.10%
Professor Poon Chung Kwong	Long Position	Beneficial owner	100,000	0.002%

Note:

The percentage has been compiled based on the total number of issued Shares of the Company as at the Latest Practicable Date (i.e. 4,393,569,000 Shares)

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which he was taken or deemed to have under such provisions of the SFO) or the Model Code.

2. Interests and short position of Substantial Shareholders in the Shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (not being a Director or chief executive of the Company) had, were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital:

Name of Shareholder	Long Position/ Short Position	Capacity	Number of Shares held	Approximate % of total issued Shares (Note 1)
Ms. Ho Tsz Wan	Long position	Held by spouse (Note 2)	1,262,932,960	28.75%
Dr. Lee Wan Keung Patrick	Long position	Beneficial owner	507,342,000	11.55%
Ms. Lee Wong Wai Kuen	Long position	Held by spouse (Note 3)	507,342,000	11.55%

Notes:

- The percentage has been compiled based on the total number of issued Shares issued as at the Latest Practicable Date (i.e. 4,393,569,000 Shares).
- Under the SFO, Ms. Ho Tsz Wan is deemed to be interested in the 1,262,932,960 Shares held by Mr. Lee Man Bun as she is the spouse of Mr. Lee Man Bun.
- Under the SFO, Ms. Lee Wong Wai Kuen is deemed to be interested in the 507,342,000 Shares held by Dr. Lee Wan Keung Patrick as she is the spouse of Dr. Lee Wan Keung Patrick.

Save as disclosed above, as at the Latest Practical Date, as far as the Company is aware of, there was no other person (other than the above mentioned Directors) who had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

2. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which will not expire or may not be terminated by the Group within one (1) year without the payment of compensation other than statutory compensation.

4. COMPETING INTERESTS

None of the Directors and their respective close associates were interested in any business apart from the Group's business which competed or was likely to compete, either directly or indirectly, with the business of the Group as at the Latest Practicable Date.

5. EXPERT

- (a) The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 15 November 2018 and reference to its name in the form and context in which it appears:

Name	Qualification
Somerley	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

- (b) To the best knowledge of the Directors, as at the Latest Practicable Date, Somerley did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) To the best knowledge of the Directors, as at the Latest Practicable Date, Somerley did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date up to which the latest published audited financial statements of the Group were made up.

6. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (a) As at the Last Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date up to which the latest published audited financial statements of the Group were made up.
- (b) As at the Last Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting which is significant in relation to the business of the Group.

7. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Cheung Kwok Keung, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 5th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

8. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the Buying Agent Agreement will be available for inspection during normal business hours on any weekday (except public holidays) at 5th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong, from 15 November 2018 for a period of 14 days up to 28 November 2018.

NOTICE OF EXTRAORDINARY GENERAL MEETING



理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Lee & Man Paper Manufacturing Limited (the “**Company**”) will be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 5 December 2018 at 3:00 p.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTION

“THAT

- (a) the buying agent agreement (the “**Buying Agent Agreement**”) dated 8 November 2018 entered into among Lee Kwok (Macao Commercial Offshore) Trading Limited, Winfibre B.V., Winfibre U.K. Company Limited and Winfibre U.S. Incorporated and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company which he considers necessary or desirable in connection with or to give effect to the Buying Agent Agreement and the transactions contemplated thereunder.”

By order of the Board of
Lee & Man Paper Manufacturing Limited
Mr. Cheung Kwok Keung
Company Secretary

Hong Kong, 15 November 2018

As at the date of this notice, 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.

* *For identification purposes only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
2. Where there are joint registered holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.
4. The form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM, and in default the form of proxy shall not be treated as valid.
5. The completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. A form of proxy for use at the EGM is enclosed.

CLOSURE OF REGISTER OF MEMBERS IN RELATION TO THE EGM

For ascertaining shareholders' right to attend and vote at the EGM, 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.