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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 and its members' liability is limited)

(Stock Code: 2314)

CONTINUING CONNECTED TRANSACTIONS

(1) 2024 BUYING AGENT AGREEMENT AND

(2) 2024 PULP PURCHASE AGREEMENT

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 23 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 24 to 36 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at SPRG Office, 24/F, Admiralty Centre Tower I, 18 Harcourt Road, Hong Kong on Monday, 25 November 2024 at 2:00 p.m. is set out on pages 41 to 43 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, 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:

“2018 Buying Agent Agreement”	the buying agent framework agreement dated 8 November 2018 entered into among the Buying Agents, Winfibre BV and Lee Kwok Trading in relation to the sourcing of recovered paper for a term of three years from 1 January 2019 up to and including 31 December 2021;
“2021 Buying Agent Agreement”	the buying agent framework agreement dated 17 November 2021 entered into among the Buying Agents, Winfibre BV and Lee Kwok Trading in relation to the sourcing of recovered paper for a term of three years from 1 January 2022 up to and including 31 December 2024;
“2021 Pulp Purchase Agreement”	the pulp purchase agreement dated 17 November 2021 entered into among the Vendors and Vantage Dragon in relation to the purchase of the Products;
“2024 Buying Agent Agreement”	the buying agent framework agreement dated 8 October 2024 entered into among the Buying Agents and Lee Kwok Trading in relation to the sourcing of recovered paper for a term of three years from 1 January 2025 up to and including 31 December 2027;
“2024 Pulp Purchase Agreement”	the pulp purchase agreement dated 8 October 2024 entered into among the Vendors and Vantage Dragon in relation to the purchase of the Products;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Best Eternity”	Best Eternity Recycle Pulp And Paper Company Limited, a limited liability company incorporated in Myanmar;
“Board”	the board of Directors;
“Buying Agent(s)”	Winfibre UK and Winfibre US;
“Buying Agent Annual Caps”	the maximum annual consideration (being the aggregate of the purchase cost of recovered paper, the agent fee and the relevant fees for obtaining regulatory certifications) to be paid to the Buying Agents for the sourcing of recovered paper by the Group under the 2024 Buying Agent Agreement for each of the three financial years ending 31 December 2025, 2026 and 2027, details of which are set out in this circular;

DEFINITIONS

“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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of PRC;
“Independent Board Committee”	a board committee comprising all three independent non-executive Directors, namely Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan Ronald, which will make recommendations to the Independent Shareholders in respect of the 2024 Buying Agent Agreement, the 2024 Pulp Purchase Agreement, the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the resolutions with respect to the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement;
“independent third party”	third party that independent of the Company and its connected persons;
“Latest Practicable Date”	28 October 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Lee Kwok Trading”	Lee Kwok Trading Limited (formerly known as Lee Kwok (Macao Commercial Offshore) Trading Limited), a limited liability company incorporated in Macau and an indirect wholly-owned subsidiary of the Company;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Agreement”	the master agreement dated 30 May 2019 entered into among Vantage Dragon, Best Eternity, Ms. Lee Rosanna Man Lai and Ms. Lee Man Ching in relation to the purchase of the Products with a term commencing from 1 July 2019 up to and including 31 December 2021;
“PRC”	the People’s Republic of China;
“Previous Buying Agent Agreements”	collectively (i) 2021 Buying Agent Agreement and the Supplemental Buying Agent Agreement and (ii) 2018 Buying Agent Agreement;
“Previous Pulp Purchase Agreements”	collectively (i) 2021 Pulp Purchase Agreement and (ii) the Master Agreement;
“Product(s)”	pulp board, pulp roll and any ancillary or related pulp products;
“Pulp Purchase Annual Caps”	the maximum annual consideration (being the aggregate of the purchase price of the Products) to be paid to the Vendors’ Group for the purchase of the Products by the Group under the 2024 Pulp Purchase Agreement for the three financial years ending 31 December 2025, 2026 and 2027, details of which are set out in this circular;
“RISI”	Fastmarkets RISI;
“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;
“Shun Yi”	Shun Yi International Trading Company Limited, a limited liability company incorporated in Thailand;

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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Supplemental Buying Agent Agreement”	the supplemental agreement dated 6 September 2022 entered into among the Buying Agents, Winfibre BV and Lee Kwok Trading to increase the limit of agent fee per metric ton of recovered paper to be charged by each of Winfibre UK and Winfibre US under the 2021 Buying Agent Agreement;
“US\$”	United States dollar, the lawful currency of United States of America;
“Vantage Dragon”	Vantage Dragon Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company;
“Vendors”	collectively, Best Eternity, Shun Yi and Ms. Lee Man Ching and each a “Vendor”;
“Vendors’ Group”	any of the majority-owned company(ies) of Ms. Lee Man Ching from time to time, including each of Best Eternity and Shun Yi, and its parent companies, subsidiaries and fellow subsidiaries;
“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 and its members' liability is limited)

(Stock Code: 2314)

Executive Directors:

Dr. Lee Man Chun Raymond (*Chairman*)
Mr. Lee Man Bun
Mr. Li King Wai Ross
Mr. Lee Jude Ho Chung
Mr. Yip Heong Kan

Registered Office:

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

Independent Non-executive Directors:

Mr. Chau Shing Yim David
Ms. Lo Wing Sze
Mr. Chan Wai Yan Ronald

Principal Office in Hong Kong:

39th Floor
Lee & Man Commercial Center
169 Electric Road
North Point
Hong Kong

5 November 2024

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) 2024 BUYING AGENT AGREEMENT AND
(2) 2024 PULP PURCHASE AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement made by the Company dated 8 October 2024. On 8 October 2024, Lee Kwok Trading and the Buying Agents entered into the 2024 Buying Agent Agreement, and Vantage Dragon and the Vendors entered into the 2024 Pulp Purchase Agreement.

* For identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is (i) to provide you with further information in relation to the transactions contemplated under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase 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 setting out the proposed resolutions approving the aforesaid agreements and the transactions thereunder. The EGM will be held on 25 November 2024 for the purpose of, among others, obtaining the approval from the Independent Shareholders in respect of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder and the Buying Agent Annual Caps and Pulp Purchase Annual Caps.

Reference is made to the announcements dated 8 November 2018, 17 November 2021 and 6 September 2022 and the circulars of the Company dated 15 November 2018 and 2 December 2021 in relation to the Previous Buying Agent Agreements and the Previous Pulp Purchase Agreements.

2024 BUYING AGENT AGREEMENT

On 17 November 2021, the Buying Agents, Winfibre BV and Lee Kwok Trading entered into the 2021 Buying Agent Agreement, pursuant to which Lee Kwok Trading appointed the Buying Agents and Winfibre BV to act as its buying agents for sourcing recovered paper in the United States, the United Kingdom and continental Europe for a term of three years from 1 January 2021 up to and including 31 December 2024. The Supplemental Buying Agent Agreement was entered into between the parties on 6 September 2022 to increase the limit of agent fee per metric ton of recovered paper to be charged by each of Winfibre UK and Winfibre US for orders to be settled from 6 September 2022 onwards.

On 8 October 2024, the parties entered into the 2024 Buying Agent Agreement to ensure the continued supply of recovered paper to the Group upon the expiry of the 2021 Buying Agent Agreement on 31 December 2024.

The principal terms of the 2024 Buying Agent Agreement are set out as follows:

Date: 8 October 2024

Parties: (1) the Buying Agents; and
(2) Lee Kwok Trading.

Nature of transaction: Lee Kwok Trading appointed the Buying Agents to act as its buying agents for sourcing recovered paper for itself (and other members of the Group) in the United States and the United Kingdom.

During the term of the 2024 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.

LETTER FROM THE BOARD

- Services provided by the Buying Agents: The services of the Buying Agents to be provided to the member(s) of the Group include, among others, the following:
- (i) to provide market information in relation to recovered paper;
 - (ii) to obtain 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 and on terms agreed by the Group;
 - (iv) to obtain written approval from the Group 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 organizing country-wide inland trucking of recovered paper, storage of products in warehouse prior to trucking out if necessary, 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 the Group 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 the Group;
 - (viii) to allow the Group 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 the Group with information about the delivery of recovered paper.
- Term of agreement: Three years commencing from 1 January 2025 up to and including 31 December 2027.

LETTER FROM THE BOARD

Pricing:

The total price payable by the Group for each order of recovered paper will be the aggregate of (i) the purchase cost of recovered paper on cost and freight basis (including re-baling cost, transloading cost, local trucking freight costs, warehouse costs and shipping costs but excluding insurance costs), (ii) agent fee and (iii) the relevant fees for obtaining regulatory certifications.

The agent fee to be charged by Winfibre UK and Winfibre US for 2025 shall be no more than US\$9.5 per metric ton of recovered paper purchased, unless all parties agree otherwise in writing taking into account market and other macro-economic conditions. For 2026 onwards, such agent fee may be adjusted from time to time provided that any increment shall not exceed 10% of the highest agent fee rate actually charged in the previous year and any increment from 2026 onwards may bring the agent fee beyond US\$9.5 per metric ton.

The agent fee is determined and agreed after arm's length commercial negotiation between the parties, having reference to the Buying Agents' operating costs and finance costs in providing recovered paper sourcing services (including but not limited to their administrative costs such as office rental and human resources costs) and the total price paid to the Buying Agents by the Group in 2024 (which includes, among other things, the agent fee) and/or the then prevailing market practices (if any). As the price quotation provided by independent third party suppliers is presented in lump sum figure rather than splitting into agent fee and their purchase cost of recovered paper, therefore the Company, in determining the maximum agent fee, has compared the total purchase price (comprising the purchase cost, agent fee and the relevant regulatory fees) offered by the Buying Agents with the purchase price/quotation offered by independent third party suppliers, rather than assessing the maximum agent fee and the increment rate on a stand-alone basis. More specifically, the maximum agent fee of US\$9.5 is determined with reference to the historical price difference between (i) the average of the reference price for recovered paper reported by RISI and the prices quoted by independent third party suppliers on one hand and (ii) the total purchase price quoted by the Buying Agents on the other hand during the term of the 2021 Buying Agent Agreement.

LETTER FROM THE BOARD

A higher agent fee might result in the Buying Agents' quotation being less competitive and the total price payable to the Buying Agents by the Group shall be no less favourable than that offered by independent third party suppliers. Given their nature, the agent fees are not expected to be adjusted frequently. Nevertheless, pursuant to the 2024 Buying Agent Agreement, the adjustment increment can only go up to a maximum of 10% from 2026 onwards. This adjustment is mainly to accommodate any changes in the abovementioned operating costs and finance costs of the Buying Agents due to inflation and unexpected market changes which may cause the Buying Agents' operating costs and finance costs to increase and it is also based on the highest agent fee rate actually charged in the previous year. The 10% increment limit is determined after arm's length negotiation between the parties which agreed to maintain the previous 10% increment limit under the Previous Buying Agent Agreements (operating since January 2019) having regard to the uncertain outlook in the interest rate environment and to lower administrative costs of the Company by reducing the need for re-compliance.

Payment: The Group is to settle payments by way of (i) telegraphic transfer within 30 days of the date of invoice or (ii) irrevocable letter of credit pursuant to which the Buying Agents shall be entitled to cash payment within 120 days after presentation of the letter of credit to the relevant bank.

The Board is of the view that the above payment terms are fair, reasonable and on normal commercial terms taking into account that the payment terms are in line with those available from the independent third party suppliers (ranging from payment at sight to a credit period of 30 days).

Condition precedent: The 2024 Buying Agent Agreement is conditional upon compliance by the Company with the relevant requirements of the Listing Rules (including but not limited to the approval of the Independent Shareholders for the 2024 Buying Agent Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps at the EGM).

Taking into consideration of the abovementioned basis of determination and the price comparison as detailed in the section headed "Pricing Policy" in the Letter from the Board, the Directors consider that the maximum agent fee and the increment limit, which serve as additional safeguard measures, are in the interest of the Company and its Shareholders as a whole, are fair and reasonable and on normal commercial terms. The terms of the 2024 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

Historical Amounts

The aggregate transaction amounts actually incurred under the 2021 Buying Agent Agreement as compared against the related annual caps for the relevant periods are set out below:

	Year ended 31 December 2022	Year ended 31 December 2023	Year ending 31 December 2024
Related annual caps	US\$914 million (approximately HK\$7,129 million)	US\$1,137 million (approximately HK\$8,869 million)	US\$1,137 million (approximately HK\$8,869 million)
Actual amount incurred	US\$260 million (approximately HK\$2,028 million)	US\$233 million (approximately HK\$1,817 million)	US\$159 million (approximately HK\$1,240 million) (<i>Note</i>)

Note: The actual amount incurred for the eight months ended 31 August 2024.

For the two years ended 31 December 2022 and 2023 and the eight months ended 31 August 2024, the historical transaction amounts only accounted for around 28.4%, 20.5% and 20.9% (annualized) of the previous annual caps respectively. The generally low annual cap utilization rates were mainly due to (i) the average purchase price of recovered paper purchased through the Buying Agents during the term of the 2021 Buying Agent Agreement was relatively lower than the estimated purchase price of recovered paper as at the date of the 2021 Buying Agent Agreement which may be attributable to global economic downturn; and (ii) the Group purchased less recovered paper from the Buying Agents and more from independent third party suppliers during the term of the 2021 Buying Agent Agreement as a result of the low-cost recovered paper offered by independent third party suppliers.

Buying Agent Annual Caps

The Buying Agent Annual Caps for each of the three financial years ending 31 December 2025, 2026 and 2027 are as follows:

Year ending 31 December 2025	Year ending 31 December 2026	Year ending 31 December 2027
US\$400 million (approximately HK\$3,120 million)	US\$380 million (approximately HK\$2,964 million)	US\$380 million (approximately HK\$2,964 million)

LETTER FROM THE BOARD

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

- (i) the historical transaction amounts under the 2021 Buying Agent Agreement as set out above and the generally low utilization rate of the previous annual caps, which together account for the downward adjustment in the Buying Agent Annual Caps;
- (ii) the estimated demand (in terms of metric tons) for recovered paper by the Group. The Group purchased approximately 1.1 million, 1.5 million and 0.8 million metric tons of recovered paper through the Buying Agents for the two years ended 31 December 2022, 2023 and the eight months ended 31 August 2024, respectively. The estimated amount of recovered paper to be purchased by the Group through the Buying Agents is expected to be approximately 1.3 million, 1.3 million and 1.3 million metric tons for the three years ending 31 December 2025, 2026 and 2027, respectively, which are based on the production plan of the Group during the term of the 2024 Buying Agent Agreement taking into account mainly the type of paper products to be manufactured and the quantity of recovered paper needed for each paper products;
- (iii) the estimated price volatility of recovered paper during the term of the 2024 Buying Agent Agreement taking into account the historical price increment of recovered paper. During the eight months ended 31 August 2024, the average prices of recovered paper (inclusive of agent fee) sourced by the Group via the Buying Agents from the United States and the United Kingdom increased by approximately 34.7% and 17.9% respectively, as compared to the average prices for 2023; and
- (iv) a buffer of approximately 8% on the estimated purchase amount of the recovered paper to accommodate any unexpected increase in the purchase price of the recovered paper, freight costs, regulatory costs or the exchange rate and to cater for possible market turbulence due to supply chain disruption or other factors beyond the control of the Company and having regard to the range of buffer adopted by other listed companies for similar transactions for the supply of goods.

In determining the Buying Agent Annual Caps, the parties have also taken into account the assumption that during the term of the 2024 Buying Agent Agreement, save as disclosed above, 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

2024 PULP PURCHASE AGREEMENT

On 17 November 2021, the Vendors and Vantage Dragon entered into the 2021 Pulp Purchase Agreement, pursuant to which Vantage Dragon has conditionally agreed to buy (for itself and other members of the Group), and the Vendors have conditionally agreed (or to procure other members of the Vendors' Group, respectively) to sell the Products to the Group from time to time for a term of three years commencing from 1 January 2022 up to and including 31 December 2024.

On 8 October 2024, the parties entered into the 2024 Pulp Purchase Agreement to ensure the continued supply of the Products to the Group upon the expiry of the 2021 Pulp Purchase Agreement on 31 December 2024.

The principal terms of the 2024 Pulp Purchase Agreement are set out as follows:

Date: 8 October 2024

Parties: (1) the Vendors; and
(2) Vantage Dragon.

Nature of transaction: Vantage Dragon has conditionally agreed to buy (for itself and other members of the Group), and the Vendors have conditionally agreed (or to procure other members of the Vendors' Group, respectively) to sell the Products to the Group based on individual orders to be placed by the Group from time to time.

During the term of the 2024 Pulp Purchase Agreement, the Group may purchase the Products from any other suppliers other than the Vendors' Group.

Services provided by the Vendors: The services of the Vendors to be provided to member(s) of the Group include, among others, the following:

- (i) to provide market information in relation to the Products;
- (ii) to obtain and provide the Group promptly with the quotes of the Products upon its request;
- (iii) to respond to enquiries from the Group in relation to the purchase of the Products;

LETTER FROM THE BOARD

- (iv) to be responsible for the respective logistics involved in transporting or delivering the Products on Incoterms (which stands for International Commercial Terms) of cost and freight basis, including but not limited to organizing country-wide inland trucking of the Products, clearance of customs, carrying out on-site inspections of the Products, putting the Products 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;
- (v) to allow the Group to perform regular site visits and organize quality inspection and specification checks at the Vendors' manufacturing plants; and
- (vi) to provide the Group with information about the delivery of the Products.

Term of agreement: For a term of three years commencing from 1 January 2025 to 31 December 2027 (both dates inclusive).

Pricing: The price payable by the Group for each order of the Products will be on cost and freight basis and determined based on normal commercial terms and will be fixed on a case-by-case basis with reference to the prevailing market rates according to price quotes in relation to the Products of comparable specifications obtained from at least two independent third party suppliers from time to time on a monthly basis and the price payable by the Group shall not be higher than the price offered by the suppliers which are independent third parties to the Group for the Products of comparable specifications.

Payment: The Group is to settle payments by way of (i) telegraphic transfer within 30 days of the date of invoice or (ii) irrevocable letter of credit pursuant to which the Vendors shall be entitled to cash payment within 120 days after presentation of the letter of credit to the relevant bank.

The Board is of the view that the above payment terms are fair, reasonable and on normal commercial terms taking into account that the payment terms are within the range of those available from the independent third party suppliers (ranging from 100% prepayment to a credit period of 90 days).

LETTER FROM THE BOARD

Condition precedent: The 2024 Pulp Purchase Agreement is conditional upon the compliance by the Company with the relevant requirements of the Listing Rules (including but not limited to the approval of the Independent Shareholders for the 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Pulp Purchase Annual Caps at the EGM).

The terms of the 2024 Pulp Purchase 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.

Historical Amounts

The aggregate transaction amounts actually incurred under the 2021 Pulp Purchase Agreement as compared against the related annual caps for the relevant periods are set out below:

	Year ended 31 December 2022	Year ended 31 December 2023	Year ending 31 December 2024
Related annual caps	HK\$2,900 million	HK\$3,900 million	HK\$3,900 million
Actual amount incurred	HK\$1,128 million	HK\$954 million	HK\$449 million <i>(Note)</i>

Note: The actual amount incurred for the eight months ended 31 August 2024.

For the two years ended 31 December 2022 and 2023 and the eight months ended 31 August 2024, the historical transaction amounts only accounted for around 38.9%, 24.5% and 17.3% (annualized) of the previous annual caps respectively. The generally low annual cap utilization rates were mainly due to (i) the Vendors' manufacturing facilities in Myanmar failed to resume operation as planned and (ii) the lower average unit price of the Products purchased from the Vendors which may be attributable to global economic downturn as well as weak domestic demand in the PRC.

Pulp Purchase Annual Caps

The Pulp Purchase Annual Caps for each of the three financial years ending 31 December 2025, 2026 and 2027 are as follows:

Year ending 31 December 2025	Year ending 31 December 2026	Year ending 31 December 2027
HK\$1,900 million	HK\$1,900 million	HK\$1,900 million

The Pulp Purchase Annual Caps have been determined by reference to:

- (i) the historical transaction amounts under the 2021 Pulp Purchase Agreement as set out above and the generally low utilization rate of the previous annual caps, which together account for the downward adjustment in the Pulp Purchase Annual Caps;

LETTER FROM THE BOARD

- (ii) the estimated production capacity of the Vendors' Group is approximately 495,000 metric tons per year. Pursuant to the 2024 Pulp Purchase Agreement, each of the Vendors has agreed to use its best endeavour to maintain (or to procure other members of the Vendors' Group to maintain) the above production capacity and/or supply of the Products per year;
- (iii) the estimated price volatility for the Products and taking into account the highest average purchase price of the Products from the Vendor located in Thailand for the two years ended 31 December 2022 and 2023 and eight months ended 31 August 2024. The Company believes that the highest average purchase price of the Products on an annual basis (in the case of 2024, for first eight months only) during the said period is an appropriate benchmark for determining the estimated purchase price for the three years ending 31 December 2025, 2026 and 2027 taking into the historical price fluctuation of recovered paper and that recovered paper is the underlying raw material for manufacturing Products;
- (iv) a buffer of approximately 8% on the estimated purchase amount of the Products to accommodate any unexpected increase in the purchase price of the Products, regulatory costs or the exchange rate and to cater for possible market turbulence due to supply chain disruption or other factors beyond the control of the Company and having regard to the range of buffer adopted by other listed companies for similar transactions for the supply of goods.

In determining the Pulp Purchase Annual Caps, the parties have also taken into account the assumption that during the term of the 2024 Pulp Purchase Agreement, save as disclosed above, 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.

PRICING POLICY

Before placing a purchase order with the Buying Agents or the Vendors (as the case may be), the Group's procurement department will compare the purchase price payable to the relevant Buying Agent or the Vendor for each purchase against market prices for recovered paper or the Products (as the case may be) of comparable specifications, which factors considered include but are not limited to the type, nature and quality of the recovered paper or relevant Product (as the case may be), according to prices quoted by at least two independent third party suppliers from time to time on a monthly basis.

In addition, the Group will also take into account the reference price for recovered paper or the Products (as the case may be) reported by RISI on its website, which appears to be updated on a weekly and monthly basis for the recovered paper and the Products, respectively. RISI is an independent third party which, according to its website, operates within Euromoney Institutional Investor PLC, providing price reporting and market analysis for pulp and paper, packaging, timber, wood products and nonwovens. This would allow the Group to understand and draw conclusions on the supply and demand of the recovered paper or the Products (as the case may be), which in turn affects their purchase prices.

Based on these pricing information, the Group will prepare price tables setting out the maximum allowable purchase price of recovered paper or the Products (as the case may be) at a particular time. The above price information will be gathered by the Group's procurement department and will be approved by the head of procurement of the Group. The procurement department will place an order with the Buying Agent or the Vendor (as the case may be) only if the purchase price payable to the relevant Buying Agent

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or the Vendor (as the case may be) for a particular specification of recovered paper or the Products under the terms of the 2024 Buying Agent Agreement or the 2024 Pulp Purchase Agreement (as the case may be) (i) is no less favourable than those which are available from independent third party suppliers for comparable specifications on relevant delivery dates and (ii) falls below the relevant maximum allowable price as set out in the price tables prepared by the Group. The Board is of the view that the abovementioned price comparison is adequate and sufficient to safeguard the interests of the Company and its Shareholders, and in the case of the 2024 Buying Agent Agreement, the agent fee limit and the increment limit stated thereunder serve as additional safeguard measures in favour of the Company and its Shareholders to limit the agent fee payable to the Buying Agents.

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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement are conducted in accordance with the respective terms and will also regularly obtain updates on the market price of recovered paper and the Products for the purpose of considering if the price for a specific transaction is fair and reasonable and in accordance with the pricing policy. Such updates shall be obtained on a monthly basis as part of its policy to prescribe the purchase price limit of the Group. For recovered paper, the updates would take into account prices for recovered paper of comparable specifications which are quoted by at least two independent third party suppliers. For the Products, the updates would take into account (i) the prices quoted by at least two independent third party suppliers for the Products of comparable specifications (which are generally waste management companies), and (ii) the production cost for the Products having considered the prevailing market price of the recovered paper and pulp (both onshore and offshore) published by RISI reports.

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 as compared to similar products in the market and to ensure that the quality of the Products purchased from the Vendors is not lower than similar products available on the market.

The Company will conduct semi-annual reviews of the transactions conducted under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement (i) to consider effective implementation of the pricing policies and the payment methods; (ii) to identify management weaknesses; and (iii) to recommend 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 semi-annual evaluation of the balances of the Buying Agent Annual Caps and the Pulp Purchase Annual Caps. The independent non-executive Directors will conduct an annual review of the transactions under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase 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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement pursuant to Rule 14A.56 of the Listing Rules.

LETTER FROM THE BOARD

Considering the pricing policies and internal control measures outlined above, the Directors believe that the price determination procedures outlined above are sufficient to ensure that the transactions contemplated under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement will be conducted on normal commercial terms, are fair and reasonable and not prejudicial to the interests of the Company and its minority shareholders.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE 2024 BUYING AGENT AGREEMENT AND 2024 PULP PURCHASE AGREEMENT

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. In 2018, having balanced the risks associated with establishing its own recovered paper sourcing operations, the Group entered into the 2018 Buying Agent Agreement to engage the Buying Agents and Winfibre BV to source recovered paper from the United States, the United Kingdom and continental Europe. The Group considered that such arrangement would be most cost-effective to ensure the continued supply of recovered paper. Such recovered paper purchased was imported to the Group's manufacturing facilities in the PRC and in Southeast Asia as raw materials.

However, due to greater demand and awareness of environment and safety issues, in relation to the import of recovered paper, the PRC government has issued the Opinion of the State Council on Comprehensively Strengthening Ecological and Environmental Protection and Resolutely Fighting the Battle against Pollution (《國務院關於全面加强生態環境保護堅決打好污染防治攻堅戰的意見》) in June 2018 and issued the Notice of the Request for Public Comments on the Draft to revise Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (Revised Draft for Comments) (《關於公開徵求〈中華人民共和國固體廢物污染環境防治法(修訂草案)〉意見的通知》) in July 2018. In the anticipation of difficulties for the Group in importing recovered paper from overseas in large volumes to support manufacturing operations in the PRC, the Group started using the Products as alternative raw materials in order to reduce the reliance on recovered paper and the Group has entered into the Master Agreement on 30 May 2019. Pursuant to the Master Agreement, each of Best Eternity, Ms. Lee Rosanna Man Lai and Ms. Lee Man Ching agreed to maintain certain production capacities and/or supply of the Products to enable the Group to secure quality pulp board, pulp roll and related product sources in the market at reasonable price.

In January 2021, the PRC government implemented full import ban on recovered paper following the promulgation of Announcement on Matters related to the Comprehensive Ban on the Import of Solid Waste (《全面禁止進口固體廢棄物相關事項的公告》) in November 2020. As a result, the domestic supply of recovered paper in the PRC significantly tightened, driving up the prices of raw materials. In addition, demand for paper products has been further increased by the “replacement of plastic with paper” trend and the recovery of consumer market demand and accelerating industrial protection in the PRC. In response to such changes in the market, the Group continued to consolidate upstream resources and develop a vertical business model covering pulp-making and recovered paper recycling in order to integrate the industrial chain and ensure the supply of raw materials. Since the establishment of overseas production bases in Malaysia, the Group has also added new production capacity to cater for its business expansion. Since the full import ban, recovered paper purchased under the Previous Buying Agent Agreements has been supplied to the new production plants in Southeast Asia.

LETTER FROM THE BOARD

For the latest financial year ended 31 December 2023, the amount of recovered paper purchased (including agent fee) by the Group pursuant to the 2021 Buying Agent Agreement was approximately US\$233 million (equivalent to approximately HK\$1,817 million), representing approximately 22% of the Group's total purchase of recovered paper in 2023, whilst the amount of recovered paper purchased directly from overseas independent suppliers amounted to approximately US\$92 million (equivalent to approximately HK\$718 million), representing approximately 9% of the Group's total purchase of recovered paper in 2023.

In order to maintain a constant supply of raw material for paper production, the Group entered into the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement, the term of which begins after the expiry of the 2021 Buying Agent Agreement and the 2021 Pulp Purchase Agreement, respectively.

The Directors (including the members of the Independent Board Committee whose opinion is given after considering the advice of Somerley) are of the view that the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are fair and reasonable and are on normal commercial terms, and the entering into of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and its Shareholders as a whole.

LISTING RULE IMPLICATIONS

2024 Buying Agent Agreement

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

Ms. Chan Wai Man Vivian is the spouse of Mr. Ng Hok She Harry. Mr. Ng Hok She Harry is the Project Director of the Group who is responsible for pulp and tissue projects of the Group and a director of certain subsidiaries of the Company. Each of Ms. Chan Wai Man Vivian and the Buying Agents is an associate of Mr. Ng Hok She Harry under the Listing Rules. Accordingly, the Buying Agents are the connected persons of the Company under the Listing Rules and the transactions under the 2024 Buying Agent Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For completeness, Mr. Ng Yu Hung is a stepbrother of Dr. Lee Wan Keung Patrick (who held and is deemed to be interested in 475,346,920 Shares (representing approximately 11.07% of the total issued shares of the Company)). Dr. Lee Wan Keung Patrick is the father of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors) and Mr. Ng Hok She Harry is the son of the brother of Mr. Ng Yu Hung.

LETTER FROM THE BOARD

2024 Pulp Purchase Agreement

Best Eternity is principally engaged in the business of manufacturing and sale of the Products in Myanmar. Shun Yi is principally engaged in the business of manufacturing and sale of the Products in Thailand. Best Eternity is indirectly owned as to 72%, 8% and 20% by Ms. Lee Man Ching, Mr. David Kung Fang and an independent third party, respectively. Mr. David Kung Fang is the spouse of Ms. Lee Man Ching. Shun Yi is indirectly owned as to 100% by Ms. Lee Man Ching.

As Ms. Lee Man Ching is the sister of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors, each of the Vendors is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun. Accordingly, the Vendors are connected persons of the Company under the Listing Rules. The transactions under the 2024 Pulp Purchase Agreement therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The highest percentage ratios under the Listing Rules in respect of the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are, on an annual basis, more than 5%. Accordingly, the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the respective annual caps will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given the relationships above, (i) Dr. Lee Wan Keung Patrick, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun; (ii) Ms. Lee Rosanna Man Lai (who is the daughter of Dr. Lee Wan Keung Patrick, the sister of Ms. Lee Man Ching, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun); and (iii) Mr. Lee Jude Ho Chung (whose grandfather is the younger brother of the grandfather of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun), will voluntarily abstain from voting at the EGM of the Company to approve the 2024 Buying Agent Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps to avoid the perception of conflict of interest.

Given Ms. Lee Man Ching is the sister of Ms. Lee Rosanna Man Lai, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, and the daughter of Dr. Lee Wan Keung Patrick, (i) each of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun, Dr. Lee Wan Keung Patrick and Ms. Lee Rosanna Man Lai who are Shareholders are considered to have a material interest in the 2024 Pulp Purchase Agreement and will abstain from voting at the EGM of the Company to approve the 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Pulp Purchase Annual Caps; and (ii) Mr. Lee Jude Ho Chung will voluntarily abstain from voting at the EGM of the Company to approve the 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Pulp Purchase Annual Caps to avoid the perception of conflict of interest.

As at the Latest Practicable Date, (i) Dr. Lee Wan Keung Patrick held and is deemed to be interested in 475,346,920 Shares (representing approximately 11.07% of the total issued shares of the Company); (ii) Dr. Lee Man Chun Raymond held 1,358,991,040 Shares (representing approximately 31.64% of the total issued shares of the Company); (iii) Mr. Lee Man Bun held 1,303,391,040 Shares (representing approximately 30.35% of the total issued shares of the Company); (iv) Ms. Lee Rosanna Man Lai held 4,564,865 Shares (representing approximately 0.11% of the total issued shares of the Company); and (v) Mr. Lee Jude Ho Chung held 878,000 Shares (representing approximately 0.02% of the total issued shares of the Company).

LETTER FROM THE BOARD

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.

Vantage Dragon is principally engaged in the business of investment holding.

Best Eternity is principally engaged in the business of manufacturing and sale of the Products in Myanmar.

Shun Yi is principally engaged in the business of manufacturing and sale of the Products in Thailand.

Ms. Lee Man Ching is the sister of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors.

Save as the following, no other Directors have any material interest in the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement or were required to abstain from voting at the board meetings of the Company in relation to the same:

- (a) to avoid the perception of conflict of interest, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (both executive Directors and associates of Dr. Lee Wan Keung Patrick), Mr. Li King Wai Ross (an executive Director and the son-in-law of Dr. Lee Wan Keung Patrick) and Mr. Lee Jude Ho Chung (an executive Director and whose grandfather is the younger brother of the grandfather of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun) had voluntarily abstained from the voting on the board resolution of the Company in relation to the 2024 Buying Agent Agreement; and
- (b) to avoid the perception of conflict of interest, (i) Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (both executive Directors and brothers of Ms. Lee Man Ching) had abstained, and (ii) Mr. Li King Wai Ross (an executive Director and the brother-in-law of Ms. Lee Man Ching) and Mr. Lee Jude Ho Chung had voluntarily abstained, from the voting on the board resolution of the Company in relation to the 2024 Pulp Purchase Agreement.

The Company has set up the Independent Board Committee to advise the Independent Shareholders in respect of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the relevant 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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement, the transactions thereunder and the relevant annual caps.

LETTER FROM THE BOARD

THE EGM

The following are the details of the EGM:

Date: Monday, 25 November 2024

Time: 2:00 p.m.

Venue: SPRG Office, 24/F, Admiralty Centre Tower I, 18 Harcourt Road, Hong Kong

The notice convening the EGM is set out on pages 41 to 43 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, 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 to be held on Monday, 25 November 2024, the register of members of the Company will be closed from Wednesday, 20 November 2024 to Monday, 25 November 2024, 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 19 November 2024.

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

The Board considers that the 2024 Buying Agent Agreement and 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are fair and reasonable and on normal commercial terms, and the entering into of the 2024 Buying Agent Agreement and 2024 Pulp Purchase Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2024 Buying Agent Agreement and 2024 Pulp Purchase Agreement, the transactions contemplated thereunder and the Buying Agent Annual Caps and the Pulp Purchase Annual Caps.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee as set out on page 23 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the Buying Agent Annual Caps and the Pulp Purchase Annual Caps.

The advice of Somerley to the Independent Board Committee and the Independent Shareholders in relation to the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement is set out on pages 24 to 36 of this circular.

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 and its members' liability is limited)

(Stock Code: 2314)

5 November 2024

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) 2024 BUYING AGENT AGREEMENT AND
(2) 2024 PULP PURCHASE AGREEMENT

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 2024 Buying Agent Agreement and the 2024 Pulp Purchase 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 2024 Buying Agent Agreement and the 2024 Pulp Purchase 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 (i) the entering into of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the bases in arriving at the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are reasonable so far as the Independent Shareholders are concerned. 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 2024 Buying Agent Agreement, the 2024 Pulp Purchase Agreement, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps.

Yours faithfully
Independent Board Committee

Mr. Chau Shing Yim David
Independent
Non-executive Director

Ms. Lo Wing Sze
Independent
Non-executive Director

Mr. Chan Wai Yan Ronald
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

5 November 2024

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS (1) 2024 BUYING AGENT AGREEMENT AND (2) 2024 PULP PURCHASE AGREEMENT

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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps. Details of the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 5 November 2024 (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, 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. Ms. Chan Wai Man Vivian is the spouse of Mr. Ng Hok She Harry. Mr. Ng Hok She Harry is the Project Director of the Group who is responsible for pulp and tissue project of the Group and a director of certain subsidiaries of the Company. Each of Ms. Chan Wai Man Vivian and the Buying Agents is an associate of Mr. Ng Hok She Harry under the Listing Rules. Accordingly, the Buying Agents are connected persons of the Company under the Listing Rules and the transactions under the 2024 Buying Agent Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For completeness, Mr. Ng Yu Hung is a stepbrother of Dr. Lee Wan Keung Patrick (who held and is deemed to be interested in 475,346,920 Shares (representing approximately 11.07% of the total issued shares of the Company)). Dr. Lee Wan Keung Patrick is the father of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors and Mr. Ng Hok She Harry is the son of the brother of Mr. Ng Yu Hung. Best Eternity is indirectly owned as to 72%, 8% and 20% by Ms. Lee Man Ching, Mr. David Kung Fang and an independent third party, respectively. Mr. David Kung Fang is the spouse of Ms. Lee Man Ching. Shun Yi is indirectly owned as to 100% by Ms. Lee Man Ching. As Ms. Lee Man Ching is the sister of Dr. Lee Man

LETTER FROM SOMERLEY

Chun Raymond and Mr. Lee Man Bun, both executive Directors, each of the Vendors is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun. Accordingly, the Vendors are connected persons of the Company under the Listing Rules. The transactions under the 2024 Pulp Purchase Agreement therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The highest percentage ratios under the Listing Rules for the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are, on an annual basis, more than 5%. Accordingly, the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the respective annual caps will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan Ronald, has been formed to make recommendations to the Independent Shareholders in respect of the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase 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, the Vendors, or their respective substantial shareholders or associates and accordingly are considered eligible to give independent advice on the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase Annual Caps. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Buying Agents, the Vendors, or their respective substantial shareholders or associates. In addition, save for the aforesaid engagement, no other services were provided by Somerley to the Company during the past two years.

In formulating our opinion, we have reviewed, amongst others, the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement, the annual report of the Company for the year ended 31 December 2023, the interim report of the Company for the six months ended 30 June 2024, the calculations for determining the Buying Agent Annual Caps and the Pulp Purchase Annual Caps (the "**Annual Caps Projections**") prepared by the management of the Group (the "**Management**") and the information contained in the Circular. We have also discussed with and reviewed information provided by the Management regarding the businesses of the Group, the prospects of conducting the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder.

We have relied on the information and facts supplied, and the opinions expressed to us, by the Management and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete and will remain so up to the time of the EGM. 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 no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. 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.

LETTER FROM SOMERLEY

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder, the Buying Agent Annual Caps and the Pulp Purchase 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.

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

The principal business of Vantage Dragon is investment holding.

2. Information on the Buying Agents

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

3. Information on the Vendors

Best Eternity is principally engaged in the business of manufacturing and sale of the Products in Myanmar.

Shun Yi is principally engaged in the business of manufacturing and sale of the Products in Thailand.

Ms. Lee Man Ching is the sister of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors.

4. Reasons for the entering into of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement

As set out in the letter from the Board, 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. Recovered paper is one of the core raw materials of the Group in its manufacturing activities. In 2018, having balanced the risks associated with establishing its own recovered paper sourcing operations, the Group entered into the 2018 Buying Agent Agreement to engage the Buying Agents and Winfibre BV to source recovered paper from the United States, the United Kingdom and continental Europe. The Group considered that such arrangement would be most cost-effective to ensure the continued supply of recovered paper. Such recovered paper purchased was imported to the Group's manufacturing facilities in the PRC and in Southeast Asia as raw materials.

However, due to greater demand and awareness of environment and safety issues, the PRC government has implemented a number of new regulations on importing recovered paper. This has created difficulties for the Group in importing recovered paper from overseas in large volumes to support its manufacturing operations in the PRC. As such, the Group started using the Products as alternative raw

LETTER FROM SOMERLEY

materials to reduce the reliance on recovered paper and entered into the Master Agreement with the Vendors in May 2019 to secure quality pulp board, pulp roll and related product sources at reasonable price. In January 2021, the PRC government implemented full import ban on recovered paper. Since the full import ban, recovered paper purchased under the Previous Buying Agent Agreements has been supplied to the production plants in Southeast Asia.

In order to maintain a constant supply of raw material for paper production, the Group first renewed the continuing connected transactions back in November 2021. As the existing agreements governing the continuing connected transactions will expire after 31 December 2024, the Group entered into the 2024 Buying Agent Agreement with the Buying Agents and the 2024 Pulp Purchase Agreement with the Vendors, both of which are for a term of three years commencing on 1 January 2025.

Based on the above, we concur with the Directors that the entering into of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement is in the ordinary and usual course of business of the Group and is in the best interests of the Company and its shareholders as a whole.

5. Principal terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement

5.1 2024 Buying Agent Agreement

Background

On 17 November 2021, the Buying Agents, Winfibre BV and Lee Kwok Trading (an indirect wholly-owned subsidiary of the Company) entered into the 2021 Buying Agent Agreement, pursuant to which Lee Kwok Trading appointed the Buying Agents and Winfibre BV to act as its buying agents for sourcing recovered paper in the United States, the United Kingdom and continental Europe for a term of three years commencing from 1 January 2021 up to and including 31 December 2024. The Supplemental Buying Agent Agreement was entered into between the parties on 6 September 2022 to increase the limit of agent fee per metric ton of recovered paper to be charged by each of Winfibre UK and Winfibre US for orders to be settled from 6 September 2022 onwards. As the 2021 Buying Agent Agreement will expire after 31 December 2024, the parties entered into the 2024 Buying Agent Agreement on 8 October 2024 to extend the services provided by the Buying Agents for a further term of three years to ensure the continued supply of recovered paper to the Group.

Principal terms

i. Agent fee and regulatory fee

The total price payable by the Group for each order of recovered paper will be the aggregate of (i) the purchase cost of recovered paper on cost and freight basis (including re-baling cost, transloading cost, local trucking freight costs, warehouse costs and shipping costs but excluding insurance costs); (ii) an agent fee; and (iii) the relevant fees for obtaining regulatory certifications.

The agent fee to be charged by Winfibre UK and Winfibre US for 2025 shall be no more than US\$9.5 per metric ton of recovered paper purchased, unless all parties agree otherwise in writing taking into account market and other macro-economic conditions. For 2026 onwards, such agent fee may be adjusted from time to time provided that any increment shall not exceed 10% of the

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highest agent fee rate actually charged in the previous year and any increment from 2026 onwards may bring the agent fee beyond US\$9.5 per metric ton.

Based on the information provided by the Company, the average agent fees paid to Winfibre US increased from US\$4.7 per metric ton for 2022 to US\$5.9 per metric ton for 2023 and further increased to US\$6.0 per metric ton for the first eight months of 2024 and to Winfibre UK decreased from US\$6.2 per metric ton for 2022 to US\$6.1 per metric ton for 2023 and further decreased to US\$5.8 per metric ton for the first eight months of 2024. As advised by the Management, the differences in average agent fees charged by the Buying Agents were mainly due to the different costs (e.g. inspection costs, logistics costs, labour costs, etc.) incurred by the Buying Agents when providing the recovered paper sourcing services in different regions. All agent fees paid to the Buying Agents did not exceed the agent fee caps as set out in the 2021 Buying Agents Agreement and the Supplemental Buying Agent Agreement. The incremental rate of 10% is set to accommodate any unexpected increase in operating costs of the Buying Agents resulting from inflation or market changes. As stated in the letter from the Board, the aforesaid agent fee limit and its increment, which form part of the total price, serve as additional safeguard measures in favour of the Company and its Shareholders to limit the agent fee payable to the Buying Agents provided that the total price shall not be higher than those offered by independent third party suppliers. The total price, in our view, would be useful to compare the price offered by independent third party suppliers for the purpose of compliance with Rule 14A.97 of the Listing Rules, details of our discussion is set out in ii below.

We are advised by the Management that prior to the PRC government implemented the import ban on solid waste from 1 January 2021, relevant fees for obtaining regulatory certifications for the import of recovered paper to the PRC were required. According to the Management, all of the Group's certifications for the import of recovered paper to the PRC were carried out by China Certification & Inspection Group ("CCIC", a stated-owned enterprise specialised in inspection, testing and certification) and are charged based on the prices prescribed by CCIC. Following the implementation of the import ban on solid waste in the PRC, relevant certification fees were no longer required. In addition, we are advised by the Management that the Group did not pay any certification fees through the Buying Agents for the import of recovered paper to any countries for 2022-2024. However, the Management believes keeping of the relevant certification fees as part of the total price in the 2024 Buying Agent Agreement will allow some flexibility to accommodate any regulatory changes in the future.

Having considered that (i) the sum of the purchase costs, the agent fees and the relevant fees for obtaining regulatory certifications (if any) (i.e. total price) were no less favourable than those offered by the independent third party suppliers as stipulated under the pricing policy set out below; (ii) the agent fee rates, which have been determined after arm's length negotiations between the parties having taken into account the Buying Agents' operation and finance costs, are no more than the agent fee cap set out in the 2024 Buying Agent Agreement; and (iii) the incremental rate of 10% is to accommodate inflation or any unexpected market changes, we consider the agent fee and the fees for obtaining the regulatory certifications payable to the Buying Agents under the 2024 Buying Agent Agreement to be fair and reasonable.

ii. Total price

The Group's procurement procedure in respect of the 2024 Buying Agent Agreement is largely the same as that for the 2021 Buying Agent Agreement, details of which have been set out

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in the Company's circular dated 2 December 2021 and the letter from the Board. The procurement department will place an order with the Buying Agents only if the total price payable to the relevant Buying Agent for a particular specification of recovered paper under the terms of the 2024 Buying Agent Agreement is no less favourable than those which are available from independent third party suppliers for comparable specifications on relevant delivery dates and falls below the relevant maximum allowable price as set out in the price tables prepared by the Group.

As advised by the Management, the price quotation provided by independent third party suppliers is a lump sum rather than splitting into agent fee and their purchase cost of recovered paper. Therefore, the Management considers, and we concur, comparing the total purchase price (comprising the purchase cost, agent fee and the relevant regulatory fees) offered by the Buying Agents with the purchase price/quotation offered by independent third party suppliers to be appropriate.

We have obtained a summary of the Group's recovered paper purchase orders in the past two years and eight months. Based on such summary, we randomly selected 10 transactions entered into with the independent third party suppliers for the purchase of recovered papers in 2022-2024 and also selected the purchase orders for the same product specifications and delivery location placed with the Buying Agents at about the same time. We have also obtained and reviewed those selected purchase orders and the price tables prepared by the Group. Based on the provided documents, we noted that the purchase prices set out in the sample purchase orders placed with the Buying Agents (i) agreed to the prices set out in the recovered paper purchase summary and did not exceed the maximum allowable prices set out in the relevant price tables; and (ii) were no less favourable than the purchase prices set out in the sample purchase orders placed with those independent third party suppliers.

Given that the pricing of the recovered paper for transactions entered into with the Buying Agents was no less favourable than those offered by independent third party suppliers and did not exceed the maximum prices set out in the price tables, we consider the pricing policy of the 2024 Buying Agent Agreement is on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

iii. Payment

We have obtained a list of all independent recovered paper suppliers of the Group (the "**Independent Recovered Paper Suppliers List**") which sets out the payment terms offered by each of them to the Group and randomly selected five transactions entered with those independent third party suppliers. We noted that the payment terms set out in the sample purchase orders placed with those independent third party suppliers, ranging from payment at sight to a credit period of 14 days, agreed to those on the Independent Recovered Paper Suppliers List. Furthermore, based on all sample purchase orders which we reviewed, we noted that the payment term offered by the Buying Agents was no less favourable than those offered by those independent third party suppliers.

Based on the above, we consider the terms of the 2024 Buying Agent Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

5.2 2024 Pulp Purchase Agreement

Background

On 17 November 2021, the Vendors and Vantage Dragon (an indirect wholly-owned subsidiary of the Company) entered into the 2021 Pulp Purchase Agreement, pursuant to which Vantage Dragon has conditionally agreed to buy (for itself and other members of the Group), and the Vendors have conditionally agreed (or to procure other members of the Vendors' Group, respectively) to sell the Products to the Group from time to time for a term from 1 January 2022 up to and including 31 December 2024. As the 2021 Pulp Purchase Agreement will expire after 31 December 2024, the parties entered into the 2024 Pulp Purchase Agreement on 8 October 2024 to extend the arrangement for a further term of three years to ensure the continued supply of the Products to the Group.

Principal terms

i. Pricing

The Group's procurement procedure in respect of the 2024 Pulp Purchase Agreement is largely the same as that for the 2021 Pulp Purchase Agreement, details of which have been set out in the Company's circular dated 2 December 2021 and the letter from the Board. The procurement department will place an order with the Vendors only if the purchase price payable to the relevant Vendor for a particular specification of the Products under the terms of the 2024 Pulp Purchase Agreement is no less favourable than those which are available from independent third party suppliers for comparable specifications on relevant delivery dates and falls below the relevant maximum allowable price as set out in the price tables prepared by the Group.

According to the Management, in the past two years and eight months, the Group only purchased Products from the Vendors' manufacturing facilities in Thailand as their pulp production in Myanmar was suspended due to ongoing political crisis.

We have obtained a summary of the Group's pulp purchase orders in the past two years and eight months and randomly selected 10 transactions entered into with the independent third party suppliers for the purchase of pulp products in 2022-2024. Based on such summary, there are five purchase orders placed with the Vendors which are comparable to the independent transactions in terms of product specifications, delivery location and timing. We have obtained and reviewed those purchase orders placed with the Vendors and independent third party suppliers and relevant price table of the Group. Based on the provided documents, we noted that the purchase prices set out in the sample purchase orders placed with the Vendors (i) agreed to the prices set out in the pulp purchase summary and did not exceed the maximum allowable price set out in the relevant price table; and (ii) were no less favourable than the purchase prices set out in the sample purchase orders placed with those independent third party suppliers.

Given that the pricing of the Products for transactions entered into with the Vendors was no less favourable than those offered by independent third party suppliers and did not exceed the maximum price set out in the price table, we consider the pricing policy of the 2024 Pulp Purchase Agreement is on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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ii. Payment

We have obtained a list of all independent pulp suppliers of the Group (the “**Independent Pulp Suppliers List**”) which sets out the payment terms offered by each of them to the Group and randomly selected five transactions entered with those independent third party suppliers. We noted that the payment terms set out in the sample purchase orders placed with those independent third party suppliers, ranging from 100% prepayment to a credit period of 90 days, agreed to those on the Independent Pulp Suppliers List. Furthermore, based on all the sample purchase orders which we reviewed, we noted that the payment term offered by the Vendors was no less favourable than those offered by those independent third party suppliers.

Based on the above, we consider the terms of the 2024 Pulp Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Internal control

As set out in the letter from the Board, (i) 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 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement are conducted in accordance with the terms thereunder and will also regularly obtain updates on the market price of recovered paper and the Products to assess whether the transaction prices are fair and reasonable and in accordance with the pricing policy; (ii) the sales and marketing team of the Group will on a monthly basis gather market intelligence to ensure the quality of the recovered paper and the Products purchased are similar to or not lower than comparable products in the market; (iii) the Company will conduct semi-annual reviews of the transactions conducted under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement; (iv) the Company will conduct semi-annual evaluation of the balances of the Buying Agent Annual Caps and the Pulp Purchase Annual Caps; and (v) the independent non-executive Directors and the auditor of the Company will conduct an annual review of the transactions under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, respectively.

For due diligence purposes, as discussed in section 5, we have (i) obtained and reviewed the summary of purchase orders for both recovered paper and the Products in the past two years and eight months and (ii) randomly selected samples to compare the terms under the 2021 Buying Agent Agreement (as supplemented by the Supplemental Buying Agent Agreement) and the 2021 Pulp Purchase Agreement with transactions entered into with independent third party suppliers, and noted that the prices paid to the Buying Agents and the Vendors’ Group were no less favourable than those paid to the independent third party suppliers and did not exceed the maximum allowable price in the price tables.

Given that (i) regular checks are conducted by relevant personnel and management of the Group; (ii) the independent non-executive Directors and the auditors of the Company will review, among other things, whether the transactions contemplated under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement are conducted in accordance with the terms thereunder; and (iii) the terms offered by the Buying Agents and the Vendors’ Group under the 2021 Buying Agent Agreement and the 2021 Pulp Purchase Agreement were no less favourable than those offered by independent third party suppliers and the prices offered by the Buying Agents and the Vendors’ Group fell below those set out in the price tables as discussed in section 5 above, we are of the view that adequate measures have been put

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in place to monitor the transactions contemplated under the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement in order to protect the interests of the Company and the Independent Shareholders.

7. The Annual Caps

7.1 *Buying Agent Annual Caps*

Set out below are the historical transaction amounts and existing annual caps under the 2021 Buying Agent Agreement for the two years ended 31 December 2023 and the eight months ended 31 August 2024 and their respective utilisation rates and the proposed annual caps for the three years ending 31 December 2027 (i.e. the Buying Agent Annual Caps):

	For the financial year ended 31 December		For the eight months ended 31 August	For the financial year ending 31 December		
	2022	2023	2024	2025	2026	2027
	Actual amount			Estimated amount		
Quantity (<i>million metric tons</i>)	1.1	1.5	0.8	1.3	1.3	1.3
Average price (<i>US\$/metric ton</i>)	229	158	203	275	268	268
Purchase amounts (<i>US\$ million</i>) ⁽¹⁾	260	233	159	370	354	354
Approximately 8% buffer (<i>US\$ million</i>)	NA	NA	NA	30	26	26
Existing/proposed annual caps (<i>US\$ million</i>)	914	1,137	1,137	400	380	380
Utilisation (%)	28.4%	20.5%	20.9% ⁽²⁾	NA	NA	NA

Notes:

- Quantity and average price in the above table have been subject to rounding adjustments. Accordingly, figures shown as purchase amounts may not be a multiplication of the aforementioned figures.
- The utilisation for 2024 of 20.9% is calculated based on the actual amount for the eight months ended 31 August 2024 of US\$159 million, on an annualised basis, divided by the existing annual cap for the year ending 31 December 2024 of US\$1,137 million.

Based on the above table, it is noted that the annual cap utilisation rate was 28.4% for 2022, 20.5% for 2023 and 20.9% for 2024. The low utilisation rates, as advised by the Management, were mainly due to (i) in light of global economic downturn, the average purchase price of recovered paper purchased through the Buying Agents in the last 2-3 years was relatively lower than the estimated purchase price of recovered paper when the existing annual caps were determined; and (ii) the Group purchased less recovered paper from the Buying Agents and more from independent third party suppliers during the term of the 2021 Buying Agent Agreement as independent third party suppliers offered competitive pricing.

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We have reviewed and discussed with the Management the Annual Caps Projections and are advised that the projected quantities used for the annual caps are determined based on the production plan of the Group during the term of the 2024 Buying Agent Agreement which, in turn, is based on the quantity and type of recovered paper needed for the Group’s production of different paper products. The projected purchase quantities of recovered papers through the Buying Agents for 2025-2027 are based on (i) the annualised purchase quantities of about 1.2 million metric tons for the first eight months of 2024; and (ii) the Group’s plan to increase its overall purchase of high-grade and low-grade recovered papers through the Buying Agents by about 0.1 million metric tons for its factories in Malaysia and Vietnam for 2025. In addition, there is no material change in the procurement plan for 2026 and 2027 as compared to 2025.

As for the projected prices, we are advised by the Management that the projected average purchase prices for the next three years are determined taking into account the overseas recovered paper market prices (including freight costs) in the past two years and eight months. According to the Management, the overseas recovered paper market prices (including freight costs) have been volatile in the past few years.

Based on the RISI reports which we have reviewed, the prices of main types of recovered paper sourced to Southeast Asia (i) from the United States fluctuated between US\$115 per metric ton and US\$325 per metric ton in 2022, between US\$155 per metric ton and US\$220 per metric ton in 2023 and between US\$205 per metric ton and US\$250 per metric ton for the first eight months of 2024; and (ii) from Europe fluctuated between US\$100 per metric ton and US\$310 per metric ton in 2022, between US\$115 per metric ton and US\$160 per metric ton in 2023 and between US\$145 per metric ton and US\$190 per metric ton for the first eight months of 2024.

Furthermore, we have reviewed the freight cost by referencing to the Baltic Dry Index (the “BDI”). BDI is an index issued daily by the Baltic Exchange in London which measures the changes in the cost of shipping bulk dry commodities on global markets. Set out below is the movement of the BDI between 1 January 2022 and 31 August 2024 (the “**Review Period**”):



Source: Bloomberg

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As shown in the graph above, during the Review Period, the BDI fluctuated between 500 and 3,500. The BDI was on an overall upward trend from January to May 2022 and peaked at around 3,400 in late May 2022. However, the BDI began to drop in June 2022 and bottomed at around 550 in mid-February 2023. From late-February 2023, the BDI started to increase and reach to the level close to the peak recorded in 2022. In 2024, the BDI hovered in the range between 1,300 and 2,500. The average BDI increased by 33% in first eight months of 2024 as compared to that of the full year of 2023. Increase in interest rates, military conflicts between Russia and Ukraine and in the Middle East and recession in the PRC real estate market might be the key factors affecting the movement of the BDI during the Review Period.

The average purchase price of imported recovered paper through the Buying Agents decreased from US\$229 per metric ton (Winfibre US: US\$235 per metric ton; and Winfibre UK: US\$214 per metric ton) in 2022 to US\$158 per metric ton (Winfibre US: US\$164 per metric ton; and Winfibre UK: US\$147 per metric ton) in 2023 but rebounded to US\$203 per metric ton (Winfibre US: US\$222 per metric ton; and Winfibre UK: US\$174 per metric ton) for the first eight months of 2024. Given the global economic uncertainty remains due to, among others, US-China trade friction, military conflicts between Russia and Ukraine and in the Middle East, it is believed that the prices of recovered paper (including freight cost) will continue to be volatile in the near future.

Taking into account the Group's business and procurement plan, the recovered paper price levels and the increase in the average purchase price of recovered paper through the Buying Agents in first eight months of 2024 as compared with 2023, the Management projected the average purchase price of recovered paper through the Buying Agents to increase by 35%, from US\$203 per metric ton in the first eight months of 2024 to US\$275 per metric ton in 2025 and then US\$268 per metric ton for each of 2026 and 2027 as the recovered paper purchase mix is expected to be adjusted in accordance with the Group's procurement plan.

A buffer of approximately 8% has been provided in order to accommodate any unexpected increase in the purchase price of the recovered paper, freight costs, regulatory costs or the exchange rate and cater for possible market turbulence due to supply chain disruption or other factors that are beyond the control of the Company.

Having considered (i) the projected purchase quantities of recovered papers through the Buying Agents are determined based on the Group's production plan for the next 3 years having taken into account the demand from the Group's overseas factories; (ii) the estimated average purchase prices of recovered paper through the Buying Agents are determined primarily based on the average purchase price of recovered paper for August 2024 multiplied by the increase in the average purchase price of recovered paper through the Buying Agent from the United States in the eight months ended 31 August 2024 as compared with 2023; and (iii) a buffer of approximately 8% is adopted to accommodate any unexpected increase in the purchase price of the recovered paper and cater for other factors that are beyond the control of the Company, we consider that the Buying Agent Annual Caps to be fair and reasonable.

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7.2 Pulp Purchase Annual Caps

Set out below are the historical transaction amounts and existing annual caps under the 2021 Pulp Purchase Agreement for the two years ended 31 December 2023 and the eight months ended 31 August 2024 and their respective utilisation rates and the proposed annual caps for the three years ending 31 December 2027 (i.e. the Pulp Purchase Annual Caps):

	For the financial year ended		For the eight	For the financial year ending		
	31 December		months ended	31 December		
	2022	2023	31 August	2025	2026	2027
	Actual amount		2024	Estimated amount		
Quantity (<i>metric tons</i>) ⁽¹⁾	316,593	399,123	176,348	495,000	495,000	495,000
Average price (<i>HK\$/metric ton</i>) ⁽¹⁾	3,564	2,391	2,545	3,560	3,560	3,560
Purchase amounts (<i>HK\$</i>) ⁽¹⁾⁽²⁾	1,128,494,000	954,255,000	448,889,000	1,762,200,000	1,762,200,000	1,762,200,000
Approximately 8% buffer (<i>HK\$</i>)	NA	NA	NA	137,800,000	137,800,000	137,800,000
Existing/proposed annual caps (<i>HK\$</i>)	2,900,000,000	3,900,000,000	3,900,000,000	1,900,000,000	1,900,000,000	1,900,000,000
Utilisation (%)	38.9%	24.5%	17.3% ⁽³⁾	NA	NA	NA

Notes:

- As advised by the Management, the Group has not purchased any Products from the Vendors' manufacturing facilities in Myanmar since March 2020 due to the suspension of the Vendors' local pulp production caused by the national political crisis and it is uncertain as to when the Vendors' manufacturing facilities in Myanmar will resume operation. Thus, the figures shown in the table above only includes the Group's actual/projected purchases from the Vendors' manufacturing facilities in Thailand.
- Due to rounding, the purchase amounts may not be a multiplication of the quantity and price.
- The utilisation for 2024 of 17.3% is calculated based on the actual amount for the eight months ended 31 August 2024 of HK\$448.89 million, on an annualised basis, divided by the existing annual cap for the year ending 31 December 2024 of HK\$3,900 million.

From the table above, it is noted that the annual cap utilisation rate was 38.9% for 2022, 24.5% for 2023 and 17.3% for 2024. The low utilisation rates, as advised by the Management, were mainly due to (i) the Vendors' manufacturing facilities in Myanmar failed to resume operation as planned; and (ii) the lower average unit price of the Products purchased from the Vendors which may be attributable to global economic downturn as well as weak domestic demand in the PRC.

We have reviewed and discussed with the Management the Annual Caps Projections and are advised by the Management that the Pulp Purchase Annual Caps are determined based on the assumption that the Group only purchases the Products from the Vendors' manufacturing facilities in Thailand as it is still uncertain as to when the Vendors' manufacturing facilities in Myanmar will resume operation due to ongoing political crisis in Myanmar. Based on the Annual Caps Projections, the estimated purchase

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quantities used for the Pulp Purchase Annual Caps are determined based on the estimated production capacity of the Vendors of 495,000 metric tons per year as stated in the 2024 Pulp Purchase Agreement.

As for the projected prices, we are advised by the Management that the estimated purchase price of HK\$3,560 per metric ton used for the Pulp Purchase Annual Caps for each of 2025-2027 is determined with reference to the highest average pulp purchase price from the Vendor located in Thailand in the past two years and eight months (i.e. HK\$3,564 per metric ton for 2022).

A buffer of approximately 8% has been provided in order to accommodate any unexpected increase in the purchase price of the Products, regulatory costs or the exchange rate and cater for possible market turbulence due to supply chain disruption or other factors that are beyond the control of the Company.

Having considered that (i) the estimated purchase quantities of the Products from the Vendors are determined based on the Vendors' estimated production capacity as stated in the 2024 Pulp Purchase Agreement; (ii) the estimated purchase prices of the Products to be charged by the Vendors are determined based on actual purchase cost of the Group in recent years; and (iii) a buffer of approximately 8% is adopted to accommodate any unexpected increase in the purchase price of the Products and cater for other factors that are beyond the control of the Company, we consider that the Pulp Purchase Annual Caps to be fair and reasonable.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole; and (ii) the terms of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the bases in arriving at the Buying Agent Annual Caps and the Pulp Purchase Annual Caps are reasonable so 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 resolutions to be proposed at the EGM in relation to the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder (together with the Buying Agent Annual Caps and the Pulp Purchase Annual Caps).

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

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

1. 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.

2. 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	Capacity	Number of Shares held	Approximate % of total issued Shares (Note)
Dr. Lee Man Chun Raymond	Long Position	Beneficial owner	1,358,991,040	31.64%
Mr. Lee Man Bun	Long Position	Beneficial owner	1,303,391,040	30.35%
Mr. Li King Wai Ross	Long Position	Held by spouse	4,564,865	0.11%
Mr. Lee Jude Ho Chung	Long Position	Beneficial owner	878,000	0.02%

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. 4,295,000,000 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.

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or proposed Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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)	1,303,391,040	30.35%
Dr. Lee Wan Keung Patrick	Long position	Beneficial owner and held by spouse (Note 3)	475,346,920	11.07%
Ms. Lee Wong Wai Kuen	Long position	Beneficial owner and held by spouse (Note 3)	475,346,920	11.07%

Notes:

- The percentage has been compiled based on the total number of issued Shares issued as at the Latest Practicable Date (i.e. 4,295,000,000 Shares).
- Under the SFO, Ms. Ho Tsz Wan is deemed to be interested in the 1,303,391,040 Shares held by Mr. Lee Man Bun as she is the spouse of Mr. Lee Man Bun.
- Under the SFO, Dr. Lee Wan Keung Patrick directly held 465,346,920 Shares and Ms. Lee Wong Wai Kuen directly held 10,000,000 Shares. Ms. Lee Wong Wai Kuen is the spouse of Dr. Lee Wan Keung Patrick. Both held and are deemed to be interested in 475,346,920 Shares.

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.

3. 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 2023, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. 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.

5. 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.

6. 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 5 November 2024 and reference to its name in the form and context in which it appears:

Name	Qualification
Somerley Capital Limited	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 2023, being the date up to which the latest published audited financial statements of the Group were made up.

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

- (a) As at the Latest 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 2023, being the date up to which the latest published audited financial statements of the Group were made up.
- (b) As at the date of this circular, 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.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Law Kit Yu, who is a fellow member of the Association of Chartered Certified Accountants and a 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 39/F, Lee & Man Commercial Center, 169 Electric Road, North Point, Hong Kong.
- (c) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

9. DOCUMENTS ON DISPLAY

A copy of each of the 2024 Buying Agent Agreement and the 2024 Pulp Purchase Agreement will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.leemanpaper.com>) for a period of not less than 14 days from the date of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands and its members' liability is limited)

(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 Tower I, 18 Harcourt Road, Hong Kong on Monday, 25 November 2024 at 2:00 p.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTIONS

(1) “**THAT**

- (a) the buying agent framework agreement (the “**2024 Buying Agent Agreement**”) dated 8 October 2024 entered into among Lee Kwok Trading Limited (“**Lee Kwok Trading**”), Winfibre (U.K) Company Limited and Winfibre (U.S.) Incorporated (together, the “**Buying Agents**”), pursuant to which Lee Kwok Trading appointed the Buying Agents to act as its buying agents for sourcing recovered paper for itself (and other members of the Company and its subsidiaries (the “**Group**”), in the United States and the United Kingdom, and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved; 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/she considers necessary or desirable in connection with or to give effect to the 2024 Buying Agent Agreement and the transactions contemplated thereunder.”

(2) “**THAT**

- (a) the pulp purchase agreement (the “**2024 Pulp Purchase Agreement**”) dated 8 October 2024 entered into among Vantage Dragon Limited (“**Vantage Dragon**”), Best Eternity Recycle Pulp And Paper Company Limited, Shun Yi International Trading Company Limited and Ms. Lee Man Ching (together, the “**Vendors**”), pursuant to which Vantage Dragon has conditionally agreed to buy (for itself and other members of the Group), and the Vendors have conditionally agreed (or to procure other members of the Vendors’ group, respectively) to sell pulp products to the Group, and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved; and

* For identification purposes only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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/she considers necessary or desirable in connection with or to give effect to the 2024 Pulp Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board of
Lee & Man Paper Manufacturing Limited
Ms. Law Kit Yu
Company Secretary

Hong Kong, 5 November 2024

As at the date of this notice, the board of directors of the Company comprises five executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun, Mr. Li King Wai Ross, Mr. Lee Jude Ho Chung and Mr. Yip Heong Kan and three independent non-executive directors, namely Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan Ronald.

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, 17th Floor, Far East Finance Centre, 16 Harcourt Road, 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

CLOSURE OF REGISTER OF MEMBERS IN RELATION TO THE EGM

For ascertaining shareholders' right to attend and vote at the EGM to be held on Monday, 25 November 2024, the register of members of the Company will be closed from Wednesday, 20 November 2024 to Monday, 25 November 2024, 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 19 November 2024.