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理文造紙有限公司*

Lee & Man Paper Manufacturing Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2314)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

On 30 May 2019, Vantage Dragon (a wholly-owned subsidiary of the Company) and the Vendors conditionally entered into the Master Agreement pursuant to which the Group may buy, and the Vendors' Group may sell, the Products from time to time. The Master Agreement has a term commencing from 1 July 2019 up to and including 31 December 2021.

The Vendors are connected persons of the Company under the Listing Rules and the transactions under the Master Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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

A circular containing, among other things, (i) further information in relation to the transactions contemplated under the Master Agreement; (ii) the opinions and recommendations of the Independent Board Committee and the independent financial adviser; and (iii) the notice of the EGM will be despatched to the Shareholders no later than 10 June 2019.

BACKGROUND

On 30 May 2019, Vantage Dragon (a wholly-owned subsidiary of the Company) and the Vendors conditionally entered into the Master Agreement pursuant to which the Group may buy, and the Vendors' Group may sell, the Products from time to time.

* For identification purposes only

MASTER AGREEMENT

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

Date:	30 May 2019
Parties:	(1) Vendor A; (2) Ms. Lee Man Ching; (3) Ms. Lee Rosanna Man Lai; and (4) Vantage Dragon.
Nature of Transaction:	Vantage Dragon has conditionally agreed to buy (and any member of the Group may buy), and the Vendors have conditionally agreed to (or to procure other members of their Vendors' Group, respectively to) sell the Products to the Group based on individual orders to be placed by the Group from time to time.
Term of Agreement:	From 1 July 2019 to 31 December 2021 (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 price for recovered paper and pulp published by Fastmarkets RISI (“ RISI ”) (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) (if such price is available on RISI) and prices quoted by the suppliers which are independent third parties. Such pricing information will act as an indication of the purchase cost of the Product. 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.
Payment:	The Group is to settle payments by ways of telegraphic transfer or letter of credit of 30 days.
Condition precedent:	The Master Agreement is conditional upon the approval of the Independent Shareholders for the Master Agreement and the transactions contemplated thereunder and the Annual Caps in accordance with the Listing Rules.

The terms of the Master Agreement were concluded based on normal commercial terms and in the Group's ordinary and usual course of business.

Pricing policy

Before placing a purchase order with the Vendors, the Group's procurement department will compare the purchase price payable to the relevant Vendor for each purchase against prices for the Products of comparable specifications quoted by at least two independent third party suppliers. The Group will also take into account prices of recovered paper and pulp published by RISI in order to determine the purchase cost of Products. Based on this, the Group will prepare price tables on a daily basis setting out the maximum allowable purchase price of the Products 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 Vendors only if the purchase price payable to the relevant Vendor for a specified specification of the Products under the terms of the Master Agreement is no less favourable than those which are available from independent third party suppliers for relevant delivery dates. If the purchase price payable to the relevant Vendor falls below the relevant maximum allowable price as set out in the price tables, the Group will proceed with such purchase.

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 Master Agreement are conducted in accordance with the terms of the Master Agreement and will also regularly obtain updates on the market price of 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 daily basis as part of its policy to prescribe the daily purchase price limit of the Group, which would take into account (i) the prices quoted by independent third party suppliers for the Products; 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 Products purchased from the Vendors is not below the same of similar products available in the market.

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

The Company will conduct quarterly evaluation of the balances of Annual Caps under the Master Agreement.

The independent non-executive Directors will conduct an annual review of the transactions under the Master 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 Master Agreement pursuant to Rule 14A.56 of the Listing Rules.

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 Master Agreement will be conducted on normal commercial terms and fair and reasonable and not prejudicial to the interests of the Company and its minority shareholders.

ANNUAL CAPS

The Annual Caps under the Master Agreement for each of the six months ending 31 December 2019 and two financial years ending 31 December 2020 and 2021 are as follows:

	Six months ending 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021
Annual Caps	HK\$1,200 million	HK\$2,400 million	HK\$2,400 million

The Annual Caps have been determined by reference to:

- (i) the estimated production capacities of Vendor A is approximately 340,000 metric tons per year, and Vendor B (by themselves or through any of companies in the Vendor B Group), is approximately another 340,000 metric tons per year. Pursuant to the Master Agreement, each of the Vendors has agreed to use its/their best endeavour to maintain the above production capacities and/or supply of the Products around 340,000 metric tons per year, through each of Vendor A Group and Vendor B Group, respectively. Vendor B had further undertaken that if they (whether by themselves or through Vendor B Group) cannot maintain the said production capacity and/or supply, they will procure Vendor A Group to produce and/or supply the Products so that under all circumstances the production capacity and/or supply of the Products by the Vendors will in aggregate be approximately 680,000 metric tons per year.
- (ii) the projected price for the Products, which is determined with reference to the average price of recovered pulp imported from Southeast Asian countries, including Indonesia, Malaysia, Singapore and Vietnam, as published on the website of General Administration of Customs in the PRC for the period from January 2018 to February 2019, which is US\$434 (equivalent to approximately HK\$3,385) per metric ton (the “**Published Average Import Price**”); and
- (iii) a buffer of approximately 4.3% on the estimated demand for the Products required by the Group.

The projected price for the Product used in arriving at the Annual Caps is based on the Published Average Import Price because recovered pulp is a relatively new source of raw material in the market for paper-making and whilst there is limited information in quantity, the price for recovered pulp is yet to be available in the report published by RISI. However, in view of the increasing demand for the recovered pulp as a result of the changes in recovered paper import policy of the PRC, the Company expects that the price of recovered pulp will be available in RISI report going forward as the market for recovered pulp continues to grow.

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

INFORMATION OF THE VENDORS

Vendor A is a company incorporated in Myanmar, which is principally engaged in the business of manufacturing and sale of the Products in Myanmar.

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

Ms. Lee Rosanna Man Lai is the spouse of Mr. Li King Wai Ross, the Executive Director, and the sister of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the Executive Directors.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE MASTER AGREEMENT

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. Majority of the paper-making operations of the Group is conducted in the PRC. The principal business of Vantage Dragon is investment holding. Historically, the Group primarily used recovered paper in its paper-making process. In order to obtain a stable supply of recovered paper, the Group has engaged designated agents to source high quality recovered paper worldwide including in the Netherlands, the United Kingdom, the United States and Canada.

Due to greater demand and awareness of environment and safety issues, in recent years the PRC government has implemented a number of new regulations on importing recovered paper, which has created difficulties for the Group on importing recovered paper from overseas in such large volume it requires. In view of such stricter regulatory regime in the PRC, the Group has considered the Products as alternative raw materials for making paper as, to the best knowledge of the Company, there is no such PRC regulatory restriction similar to that imposed on importing recovered paper as at the date of this announcement. As advised by the Vendor A, Vendor A is in the process of constructing the production facility for the production of the Products and currently expects to commence commercial production during the second half of 2019. The estimated production capacities of Vendor A is not less than 340,000 metric tons per year and Vendor B (by themselves or through any of companies in the Vendor B Group) is approximately another 340,000 metric tons per year. Despite the expected strong demand for such Products as the alternative raw materials for paper manufacturing companies given the regulatory environment on importing recovered paper into the PRC, each of the Vendors has agreed to use its/their best endeavour to maintain the above production capacities and/or supply of the Products around 340,000 metric tons per year, through each of Vendor A Group and Vendor B Group, respectively. Vendor B had further undertaken that if they (whether by themselves or through Vendor B Group) cannot maintain the said production capacity and/or supply, they will procure Vendor A Group to produce and/or supply the Products so that under all circumstances the production capacity and/or supply of the Products by the Vendors will in aggregate be approximately 680,000 metric tons per year. As using the Products as raw materials for making paper can reduce the reliance on recovered paper, which import is subject to the increased PRC regulatory restriction of recovered paper as mentioned above, the Directors consider that using the Products would help maintain smooth operation of the Group in paper production going forward.

Further, as the market is still evolving in response to the increased PRC regulatory restrictions on recovered paper and the Company has just started to use the Products as raw materials for paper production, the Company cannot ascertain or foresee with certainty the relevant financial impact as a result of using the Products going forward. Nevertheless, the Company believes that should the limited supply of recovered paper due to such regulatory restriction continues, it may drive up the demand for alternative raw materials for paper production including the Products. It is therefore crucial to secure in advance the supply of Products with the Vendors so as to have an additional and stable source of raw materials to the Group and minimizing adverse impact on the Group from the operational and financial perspective.

The Group sees this as an opportunity to secure an additional source for the Products as the supply of which is still unstable given the early stage of this market and the current limited number of suppliers of the Products, in order to satisfy the Group's requirement for maintaining not only the current production level but also possible significant growth in the future.

The Master Agreement will enable the Group to secure quality pulp board, pulp roll and related product sources in the market at reasonable price to the Group. Under the Master Agreement, the Group is not required to exclusively purchase the Products from the Vendors, hence the Group can (i) diversify its source of supply for raw materials; (ii) lower its reliance on a particular source of raw material or supply channel; and (iii) retain its flexibility in selecting possible vendors, based on normal commercial terms.

The Directors (other than the Independent Non-executive Directors whose opinion will be given after receiving advice from the independent financial adviser, Somerley) are of the view that the terms of the Master Agreement are fair and reasonable and are on normal commercial terms, and the entering into of the Master Agreement is in the ordinary and usual course of business of the Group and in the best interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Vendor A is indirectly majority owned by Ms. Lee Man Ching.

As Ms. Lee Rosanna Man Lai is the spouse of Mr. Li King Wai Ross, the Executive Director, she is an associate of Mr. Li King Wai Ross. As Ms. Lee Man Ching and Ms. Lee Rosanna Man Lai are both sisters of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the Executive Directors, the Vendors are also the associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun. Furthermore, as Ms. Lee Man Ching and Ms. Lee Rosanna Man Lai are both daughters of Dr. Lee Wan Keung Patrick, the substantial shareholder of the Company, who held 507,342,000 Shares (representing approximately 11.58% of the total issued shares of the Company) as at the date of this announcement, the Vendors are also the associates of Dr. Lee Wan Keung Patrick.

Accordingly, the Vendors are connected persons of the Company under the Listing Rules. The transactions under the Master Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

The relevant percentage ratios under the Listing Rules for the Annual Caps are, on an annual basis, more than 5%. Accordingly, the Master Agreement and the Annual Caps will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules. Given that (a) Ms. Lee Rosanna Man Lai is an associate of Mr. Li King Wai Ross; and (b) the Vendors are associates of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Dr. Lee Wan Keung Patrick, each of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Dr. Lee Wan Keung Patrick together with Ms. Lee Rosanna Man Lai who are Shareholders are considered to have a material interest in the Master Agreement and will abstain from voting at the EGM of the Company to approve the Master Agreement and the transactions contemplated thereunder and the Annual Caps. As at the date of this announcement, (i) Dr. Lee Man Chun Raymond held 1,358,991,040 Shares (representing approximately 31.03% of the total issued shares of the Company); (ii) Mr. Lee Man Bun held 1,262,932,960 Shares (representing approximately 28.83% of the total issued shares of the Company); (iii) Ms. Lee Rosanna Man Lai held 4,564,865 Shares (representing approximately 0.10% of the total issued shares of the Company); and (iv) Dr. Lee Wan Keung Patrick held 507,342,000 Shares (representing approximately 11.58% of the total issued shares of the Company).

GENERAL

As Ms. Lee Rosanna Man Lai is the spouse of Mr. Li King Wai Ross, the Executive Director, she is an associate of Mr. Li King Wai Ross. As Ms. Lee Man Ching and Ms. Lee Rosanna Man Lai are both sisters of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the Executive Directors, the Vendors are also the associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun. As such, Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Li King Wai Ross are considered having material interest in the Master Agreement and had therefore abstained from voting on the board resolution of the Company in relation to the Master Agreement and the transactions contemplated thereunder. Save as aforesaid, no other Directors have any material interest in the Master Agreement or were required to abstain from voting at the board meetings of the Company in relation to the same.

The Company has set up the Independent Board Committee to advise the Independent Shareholders in respect of the Master Agreement and the related Annual Caps. The Company has appointed Somerley as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the related Annual Caps.

A circular containing, among other things, (i) further information in relation to the transactions contemplated under the Master Agreement; (ii) the opinions and recommendations of the Independent Board Committee and Somerley; and (iii) the notice of the EGM at which the resolution set out therein will be proposed to the Independent Shareholders will be despatched to the Shareholders no later than 10 June 2019.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' right to attend and vote at the EGM to be held on 28 June 2019, the register of members of the Company will be closed from 25 June 2019 to 28 June 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 24 June 2019.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Annual Caps”	the maximum annual consideration (being the aggregate of the purchase price of the Products) to be paid to the Vendors’ Groups for the purchase of the Products by the Group under the Master Agreement for six months ending 31 December 2019 and the two financial years ending 31 December 2020 and 31 December 2021;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“continuing connected transaction”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Master Agreement and the transactions contemplated thereunder and the Annual Caps;
“Group”	the Company and its subsidiaries;
“Independent Board Committee”	a board committee comprising all three Independent Non-executive Directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David and which will make recommendations to the Independent Shareholders in respect of the Master Agreement and the Annual Caps;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the resolutions with respect to the Master Agreement and the transactions contemplated thereunder and the Annual Caps;
“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 the Vendors and Vantage Dragon in relation to the sale and purchase of the Products;
“PRC”	the People’s Republic of China;
“Products”	pulp board, pulp roll and any ancillary or related pulp products;
“Share(s)”	ordinary share of HK\$0.025 each in the issued share capital of the Company;
“Shareholder(s)”	holder(s) of shares of the Company;
“Somerley”	Somerley Capital Limited, being a corporation licensed by the Securities and Futures Commission of Hong Kong; for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the transactions contemplated thereunder and the Annual Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Vantage Dragon”	Vantage Dragon Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company;
“Vendor A”	Best Eternity Recycle Pulp And Paper Company Limited, a company incorporated in Myanmar;
“Vendor A Group”	Vendor A, its parent companies, subsidiaries and fellow subsidiaries from time to time;
“Vendor B”	collectively, Ms. Lee Man Ching and Ms. Lee Rosanna Man Lai;
“Vendor B Group”	any of the majority owned company(ies) of Ms. Lee Rosanna Man Lai and/or Ms. Lee Man Ching from time to time, other than Vendor A Group;

“Vendors”	collectively, Vendor A and Vendor B and each a “Vendor”;
“Vendors’ Groups”	collectively, Vendor A Group and Vendor B Group ;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC;
“US\$”	United States dollar, the lawful currency of United States of America; and
“%”	per cent.

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

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

Hong Kong, 30 May 2019

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Li King Wai Ross, one non-executive director, namely Professor Poon Chung Kwong, and three independent non-executive directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David.