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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)



LEE & MAN CHEMICAL COMPANY LIMITED
理文化工有限公司
(Incorporated in the Cayman Islands and its members' liability is limited)
Website: www.leemanchemical.com
(Stock Code: 746)

JOINT ANNOUNCEMENT

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION

Reference is made to the joint announcement of LMP and LMC dated 31 December 2020 and the circular of LMC dated 5 February 2021 in relation to, among other things, the 2021 Chemicals Purchase Agreement entered into between LMC (as supplier) and LMP (as purchaser), pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group for three years commencing from 1 January 2021 up to and including 31 December 2023.

On 25 April 2022, LMP and LMC entered into the Supplemental Agreement to amend the Existing Annual Caps to the Revised Annual Caps for the 2021 Chemicals Purchase Agreement. Save for this revision, the principal terms under the 2021 Chemicals Purchase Agreement remain the same.

LISTING RULES IMPLICATIONS

As LMP and LMC are connected persons of each other under Chapter 14A of the Listing Rules, the transactions contemplated under the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) constitute a continuing connected transaction for both LMP and LMC under Chapter 14A of the Listing Rules.

LMP

In respect of LMP, as the relevant percentage ratios under the Listing Rules in respect of the Revised Annual Caps are more than 0.1% but less than 5%, the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purposes only

LMC

In respect of LMC, as the relevant percentage ratios under the Listing Rules in respect of the Revised Annual Caps are more than 5% and more than HK\$10 million, the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps will be subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent board committee of LMC, comprising Mr. Wan Chi Keung Aaron and Mr. Heng Victor Ja Wei, has been established by LMC to advise the independent shareholders of LMC on, among other things, whether the terms of the Supplemental Agreement (including the Revised Annual Caps) are fair and reasonable. As Mr. Wong Kai Tung Tony is an independent non-executive Director of both LMP and LMC, he has been excluded from the independent board committee of LMC to avoid any potential conflict of material interest that may arise.

Lego Corporate Finance Limited has been appointed as the independent financial adviser of LMC to advise the independent board committee of LMC and the independent shareholders of LMC in this regard.

The extraordinary general meeting of LMC will be convened and held for the independent shareholders of LMC to consider and, if thought fit, approve the transactions contemplated under the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps.

Details in connection with the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps, the recommendation of the independent board committee of LMC and the advice of the independent financial adviser of LMC regarding the aforesaid transaction will be included in the circular to be issued by LMC. The aforesaid circular together with the notice of LMC extraordinary general meeting is expected to be despatched to the shareholders of LMC on or before 10 June 2022, which is more than 15 business days after the publication of this announcement, as LMC requires additional time to prepare the information to be included in the circular.

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION

Reference is made to the joint announcement of LMP and LMC dated 31 December 2020 and the circular of LMC dated 5 February 2021 in relation to, among other things, the 2021 Chemicals Purchase Agreement entered into between LMC (as supplier) and LMP (as purchaser), pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group for three years commencing from 1 January 2021 up to and including 31 December 2023.

On 25 April 2022, LMP and LMC entered into the Supplemental Agreement to amend the Existing Annual Caps to the Revised Annual Caps for the 2021 Chemicals Purchase Agreement.

Under the Supplemental Agreement, the annual cap is proposed to be revised as follows:

	For the year ending 31 December 2022	For the year ending 31 December 2023
Existing Annual Caps	RMB175 million (approximately HK\$210 million)	RMB175 million (approximately HK\$210 million)
Revised Annual Caps	RMB320 million (approximately HK\$384 million)	RMB320 million (approximately HK\$384 million)

The annual caps stated above are exclusive of value-added tax.

Save for the revision of the Existing Annual Caps to the Revised Annual Caps, the principal terms (including the payment terms) under the 2021 Chemicals Purchase Agreement remain the same.

As disclosed in the joint announcement of LMP and LMC dated 31 December 2020 and the circular of LMC dated 5 February 2021, the LMC Group will be responsible for the transportation of the industrial chemical products while the transportation costs will be borne by the LMP Group. Delivery will be made by the LMC Group within 3 business days of the placement of the relevant purchase order by the LMP Group specifying the type and amount of industrial chemical products required. The relevant member of the LMC Group will issue monthly sales invoices to the relevant member of the LMP Group and such invoices shall be settled in cash by the relevant member of the LMP Group (using its internal resources) within 30 days of the date of issue of the sales invoices.

Furthermore, the price and terms of payment under the 2021 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices at the relevant time when purchase orders are made provided that the prices charged by the LMC Group shall not be higher than that available from independent third party suppliers. The management staff of the relevant member of the LMP Group will monitor and take samples of the market prices for relevant industrial chemical products available from at least two independent third party suppliers on a monthly basis to ensure prices charged by the LMC Group do not exceed those of independent third party suppliers.

In determining such prices and terms of sales to LMP Group, LMC Group would in its ordinary course go through its internal procedures in order to determine the final selling price to ensure that it is fair and reasonable, on normal commercial terms and, to the extent these are connected transactions, comparable to those offered to independent third party customers. In the usual course, LMP Group would contact the sales team of LMC Group for the purchase of chemical products. This would involve a discussion on the type and quantity of the chemical products needed, the delivery time and location and LMP Group's indicative purchase price.

The sales team of LMC Group would then pass on a pricing request to the marketing team of LMC Group. The marketing team of the LMC Group would check against their latest pricing information gathered from the discussions with LMC Group's other (at least two) independent third party customers, which is regularly done on a monthly basis as well as check against with a number of relevant websites which publish information on pricing (which appear to be updated on a monthly basis). The marketing team would also engage their independent third party customers on a monthly basis to understand their operational levels and production needs from time to time, which in turn may affect the amounts and types of chemicals needed from LMC Group and therefore the related prices.

Upon gathering the above market data, the marketing team will then present such data to the sales department whilst the finance department will be informed to then make enquiries and check the inventory level of such requested chemical type to ascertain the inventory level of such chemicals LMC Group has at the time and relevant costs of production. It will also check with LMC Group's logistics department to ascertain an estimation of delivery and related transportation costs based on the proposed delivery location and details on chemicals to be delivered. The above findings would be consolidated and reported to LMC's head of sales who would then decide on a price range for sales team to go back to LMP Group in order to agree and finalise the sale price with LMP Group, ensuring such sales will generate reasonable profits and on normal commercial terms for LMC.

REASONS FOR AND BENEFITS OF REVISING THE EXISTING ANNUAL CAPS AND THE BASIS FOR DETERMINING THE REVISED ANNUAL CAPS

Set out in the table below are the actual transaction amounts for the year ended 31 December 2021 and the three months ended 31 March 2022 for the 2021 Chemicals Purchase Agreement.

	For the year ended 31 December 2021	For the three months ended 31 March 2022
	Actual amount incurred	
Purchase of various industrial chemical products from the LMC Group by the LMP Group	RMB153.4 million (approximately HK\$184.1 million)	RMB49.4 million (approximately HK\$59.2 million)

For the year ended 31 December 2021	For the year ending 31 December 2022
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Existing annual caps

RMB175 million (approximately HK\$210 million)	RMB175 million (approximately HK\$210 million)
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Upon review of the actual amount of industrial chemical products transacted for the year ended 31 December 2021 and the three months ended 31 March 2022, it is evident that the demand for industrial chemical products for the production needs of the LMP Group has significantly increased due to change in craftsmanship and/or expanded production in various production sites in China and southeast Asia. Also, due to the significant fluctuation in the market price of the industrial chemical products in the year of 2021 and early 2022 due to the revitalization of the manufacturing sector in China driving up the market price of various chemical products which is beyond the original expectation when determining the Existing Annual Caps in late 2020, there is an imminent need to increase the Existing Annual Caps so that the LMP Group is able to continue to secure a steady supply of quality industrial chemical products at a reasonable and cost effective price (given the proximity of LMP's and LMC's respective production facilities) in order to fulfil its production needs. The increased sales and price of industrial chemical products also allows the LMC Group to generate additional revenue for the remaining term of the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement).

The Revised Annual Caps are determined with reference to (i) the actual transaction amount of purchases by the LMP Group under the 2021 Chemicals Purchase Agreement for the year ended 31 December 2021 and the three months ended 31 March 2022; (ii) LMP Group's anticipated consumption requirements for the remaining term of the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement); (iii) the production capacity and estimated quantity of industrial chemical products to be manufactured by the LMC Group; and (iv) the anticipated market price fluctuations of the industrial chemical products for the two years ending 31 December 2023.

In determining the Revised Annual Caps, the parties have also taken into account the assumption that during the remaining term of the 2021 Chemicals Purchase Agreement (as amended by the Supplemental 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 LMP Group and/or the LMC Group.

As at the date of this announcement, the Existing Annual Caps under the 2021 Chemicals Purchase Agreement has not been exceeded.

The Directors of each of LMP and LMC (including the independent non-executive Directors of LMP but excluding the independent non-executive Directors of LMC on the independent board committee whose views will be given after considering the advice from the independent financial adviser) are of the view that the terms of the Supplemental Agreement (including the Revised Annual Caps) are fair and reasonable and the transactions contemplated under the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) are on normal commercial terms, in the ordinary and usual course of each of LMP Group's and LMC Group's businesses respectively and are in the interests of each of LMP, LMC and their respective shareholders as a whole.

GENERAL

LMP and its subsidiaries are principally engaged in large-scale paper manufacturing and specialize in the production of linerboard, corrugating medium and tissue paper. LMC and its subsidiaries are principally engaged in the manufacture and sale of chemical products.

Mr. Lee Man Yan, the ultimate controlling shareholder of LMC holding 65% issued shares of LMC as at the date of this announcement, is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive Directors of LMP.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun each holds 31.46% issued shares of LMP as at the date of this announcement.

Accordingly, LMP and LMC are connected persons of each other under Chapter 14A of the Listing Rules and the transactions contemplated under the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) constitute a continuing connected transaction for both LMP and LMC under Chapter 14A of the Listing Rules. LMP does not hold any shares in LMC and vice versa as at the date of this announcement.

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in a proposed transaction must abstain from voting at the relevant general meeting on the relevant resolution(s). As at the date of this announcement, Mr. Lee Man Yan and his associates are interested in 618,750,000 shares of LMC, representing approximately 75% of the shares in LMC. Therefore, Mr. Lee Man Yan and his associates will abstain from voting at the extraordinary general meeting of LMC to approve the Supplemental Agreement. Save for the aforesaid and to the best of the information, knowledge and belief of the Directors having made all reasonable enquiries, no other Shareholder is required to abstain from voting at the EGM.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (who are Directors of LMP and associates of Mr. Lee Man Yan) and Mr. Wong Kai Tung Tony (who is a Director of both LMP and LMC) had abstained from voting on the board resolutions of LMP in relation to the Supplemental Agreement. Ms. Wai Siu Kee and Mr. Lee Man Yan (who are Directors of LMC and are associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun) and Mr. Wong Kai Tung Tony (who is a Director of both LMP and LMC) had abstained from voting on the board resolutions of LMC in relation to the Supplemental Agreement.

To avoid the perception of conflict of interest, Mr. Li King Wai Ross (a Director of LMP and brother-in-law of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Lee Man Yan) and Mr. Lee Jude Ho Chung (a Director of LMP and whose grandfather is the younger brother of the grandfather of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Lee Man Yan), had voluntarily abstained from voting on the board resolutions of LMP in relation to the Supplemental Agreement.

Save for the aforesaid, no other Director of LMP or LMC has any material interest in the Supplemental Agreement or was required to abstain from voting at the board meetings of LMP and LMC in relation to the same.

LISTING RULES IMPLICATIONS

LMP

In respect of LMP, as the relevant percentage ratios under the Listing Rules in respect of the Revised Annual Caps are more than 0.1% but less than 5%, the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, as the relevant percentage ratios under the Listing Rules in respect of the Revised Annual Caps are more than 5% and more than HK\$10 million, the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps will be subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent board committee of LMC, comprising Mr. Wan Chi Keung Aaron and Mr. Heng Victor Ja Wei, has been established by LMC to advise the independent shareholders of LMC on, among other things, whether the terms of the Supplemental Agreement (including the Revised Annual Caps) are fair and reasonable. As Mr. Wong Kai Tung Tony is an independent non-executive Director of both LMP and LMC, he has been excluded from the independent board committee of LMC to avoid any potential conflict of material interest that may arise.

Lego Corporate Finance Limited has been appointed as the independent financial adviser of LMC to advise the independent board committee of LMC and the independent shareholders of LMC in this regard.

The extraordinary general meeting of LMC will be convened and held for the independent shareholders of LMC to consider and, if thought fit, approve the transactions contemplated under the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps.

Details in connection with the 2021 Chemicals Purchase Agreement (as amended by the Supplemental Agreement) and the Revised Annual Caps, the recommendation of the independent board committee of LMC and the advice of the independent financial adviser of LMC regarding the aforesaid transaction will be included in the circular to be issued by LMC. The aforesaid circular together with the notice of LMC extraordinary general meeting is expected to be despatched to the shareholders of LMC on or before 10 June 2022, which is more than 15 business days after the publication of this announcement, as LMC requires additional time to prepare the information to be included in the circular.

DEFINITIONS

The following defined terms are used in this announcement:

“2021 Chemicals Purchase Agreement”	the agreement dated 31 December 2020 entered into between LMC (as supplier) and LMP (as purchaser) pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group, details of which are set out in the joint announcement of LMP and LMC dated 31 December 2020 and the circular of LMC dated 5 February 2021;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Directors”	the directors of either LMP or LMC (as the case may be);
“Existing Annual Caps”	the existing annual caps for the two years ending 31 December 2022 and 2023 in relation to the 2021 Chemicals Purchase Agreement, being RMB175 million (approximately HK\$210 million);
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LMC”	Lee & Man Chemical Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMC Group”	LMC and its subsidiaries;
“LMP”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;

“LMP Group”	LMP and its subsidiaries;
“PRC”	the People’s Republic of China;
“Revised Annual Caps”	the revised annual caps for the two years ending 31 December 2022 and 2023 in relation to the 2021 Chemicals Purchase Agreement, being RMB320 million (approximately HK\$384 million);
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement”	the supplemental agreement dated 25 April 2022 entered into between LMP and LMC to amend the Existing Annual Caps to the Revised Annual Caps in the 2021 Chemicals Purchase Agreement; and
“%”	per cent.

For illustration purposes only, the exchange rate of RMB1 = HK\$1.20 has been adopted for translating RMB into HK\$ in this announcement.

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

By order of the Board
Lee & Man Chemical Company Limited
Wai Siu Kee
Chairman

Hong Kong, 25 April 2022

As at the date of this announcement, the board of directors of the Lee & Man Paper Manufacturing Limited 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, one non-executive director namely Professor Poon Chung Kwong, three independent non-executive directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David, and the board of directors of Lee & Man Chemical Company Limited comprises four executive directors, namely, Ms. Wai Siu Kee, Mr. Lee Man Yan, Professor Chan Albert Sun Chi and Mr. Yang Zuo Ning, and three independent non-executive directors, namely, Mr. Wong Kai Tung, Tony, Mr. Wan Chi Keung, Aaron BBS JP and Mr. Heng Victor Ja Wei.