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LEE & MAN CHEMICAL COMPANY LIMITED

理文化化工有限公司

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

Website: www.leemanchemical.com

(Stock Code: 746)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

2024 JIANGSU LEASE AGREEMENT

On 29 December 2023, Jiangsu Paper (as lessor) and Jiangsu Chemical (as lessee) entered into the 2024 Jiangsu Lease Agreement in connection with the leasing of certain properties located at Liwen Road, Yan Jiang Industrial Park, Changshu Economic Development Zone, Jiangsu Province, the PRC. Such properties are leased by Jiangsu Paper to Jiangsu Chemical for use as office and staff quarters. The 2024 Jiangsu Lease Agreement has a term of one year commencing from 1 January 2024 up to and including 31 December 2024 (subject to annual automatic renewal until 31 December 2026 unless otherwise terminated by either party).

2024 JIANGXI LEASE AGREEMENT

On 29 December 2023, Jiangxi Chemical (as lessor) and certain members of the LMP Group (as lessees) entered into the 2024 Jiangxi Lease Agreement in connection with the leasing of certain properties located at Ma Tou Industrial City, Ma Tou Town, Ruichang City, Jiangxi Province, the PRC. Such properties are leased by Jiangxi Chemical to the LMP Group for use as staff quarters and guestrooms. The 2024 Jiangxi Lease Agreement has a term of one year commencing from 1 January 2024 up to and including 31 December 2024 (with an option to renew the agreement for one year and not more than two renewals up to and including 31 December 2026).

LISTING RULES IMPLICATIONS

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of the Company. Jiangsu Paper, Jiangxi Paper and Jiangxi Tissue (being counterparties to the above agreements) are indirect wholly-owned subsidiaries of LMP.

As Jiangsu Chemical entered into the 2024 Jiangsu Lease Agreement as lessee, the Fixed Lease Payment is recognized as right-of-use assets under HKFRS 16 “Leases” and it constitutes a one-off connected transaction for the Company. On the other hand, since Jiangxi Chemical entered into the 2024 Jiangxi Lease Agreement as lessor, it constitutes a continuing connected transaction for the Company and it is required to set an annual cap on the annual rental income received.

The relevant percentage ratios under the Listing Rules in respect of the value of the right-of-use assets under the 2024 Jiangsu Lease Agreement and the 2024 Jiangxi Lease Annual Caps are respectively more than 0.1% but less than 5%. Accordingly, the 2024 Jiangsu Lease Agreement and the 2024 Jiangxi Lease Agreement will be subject to the reporting, announcement and annual review requirements but are exempt from circular (including independent financial advice) and shareholders’ approval requirements under Chapter 14A of the Listing Rules.

I. 2024 LEASE AGREEMENTS

Background

On 31 December 2020, members of the LMP Group and the Group entered into the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Agreements. Further details are set out in the announcement of the Company dated 4 January 2021.

As the above agreements will expire after 31 December 2023, the relevant parties have entered into the 2024 Lease Agreements to renew the aforementioned agreements, respectively.

The Directors consider the 2024 Lease Agreements to be distinctly separate and different in nature with one another given the nature of these transactions.

For the 2024 Jiangsu Lease Agreement, the Fixed Lease Payment constitutes a one-off connected transaction for the Company. On the other hand, the transactions contemplated under the 2024 Jiangxi Lease Agreement constitute continuing connected transactions for the Company. Further details of these agreements are set out below.

The 2024 Lease Agreements

1. 2024 Jiangsu Lease Agreement

Date:	29 December 2023
Parties:	(i) Jiangsu Paper (as lessor) (ii) Jiangsu Chemical (as lessee)
Nature of Transaction:	Jiangsu Paper (as lessor) will lease to Jiangsu Chemical (as lessee) certain properties located at Liwen Road, Yan Jiang Industrial Park, Changshu Economic Development Zone, Jiangsu Province, the PRC. Such properties comprise: (1) third floor office space (at a monthly rate of RMB11,745); and (2) staff quarters (at a monthly rate of RMB760 per room)
Term of Agreement:	one year commencing from 1 January 2024 up to and including 31 December 2024 (subject to annual automatic renewal until 31 December 2026 unless otherwise terminated by either party).
Payment:	Payment of the rent for each month shall be made by Jiangsu Chemical (using its internal financial resources) before the twentieth day of the following month by way of bank transfer to the lessor's designated bank account. In accordance with HKFRS 16, the Fixed Lease Payment is capital in nature for the Company, and it will be recognized as right-of-use assets of the Group, for an amount of approximately RMB6.5 million (approximately HK\$7.0 million).

Pricing Policy: The lease rates and terms of payment under the 2024 Jiangsu Lease Agreement were determined by reference to market prices of other independent third party providers of similar sized premises in the province and were based on normal commercial terms after arm's length negotiation. The lease rates under the 2024 Jiangsu Lease Agreement were comparable to the sample prices obtained by management staff of Jiangsu Chemical from two independent third party providers of similar sized premises in the province.

2. 2024 Jiangxi Lease Agreement

Date: 29 December 2023

Parties: (i) Jiangxi Chemical (as lessor)
(ii) Jiangxi Paper and Jiangxi Tissue (each as a lessee)

Nature of Transaction: Jiangxi Chemical (as lessor) will lease to Jiangxi Paper and Jiangxi Tissue respectively (or any other member of the LMP Group) (as lessee) certain properties located at Ma Tou Industrial City, Ma Tou Town, Ruichang City, Jiangxi Province, the PRC. Such properties comprise:

- (1) staff quarters (at a monthly rate ranging from RMB760 to RMB2,000 per room)
- (2) guestrooms (to be determined based on actual daily usage at a daily rate of RMB80 per room).

Term of Agreement: one year commencing from 1 January 2024 up to and including 31 December 2024 and each of Jiangxi Paper and Jiangxi Tissue has an option to renew the agreement for one year and not more than two renewals up to and including 31 December 2026.

Payment: Subject to the limits of the 2024 Jiangxi Lease Annual Caps, payment of the rent for each month shall be made by Jiangxi Paper and Jiangxi Tissue (using its internal financial resources) before the twentieth day of the following month by way of bank transfer to the lessor's designated bank account.

Pricing Policy: The lease rates and terms of payment under the 2024 Jiangxi Lease Agreement were determined by reference to market prices of other independent third party providers of similar sized premises in the province and were based on normal commercial terms after arm's length negotiation. The lease rates under the 2024 Jiangxi Lease Agreement were comparable to the sample prices obtained by management staff of Jiangxi Chemical from two independent third party providers of similar sized premises in the province.

Historical Amounts and Annual Caps

As the 2024 Jiangxi Lease Agreement constitutes a continuing connected transaction for the Company, it is required to set an annual cap on the annual rental income to be received by the Company.

The aggregate transaction amounts actually incurred for the lease of premises provided under the 2021 Jiangxi Lease Agreements as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Amount		
	Year ended 31 December 2021	Year ended 31 December 2022	Year ending 31 December 2023
Actual amount incurred	RMB2.2 million (approximately HK\$2.4 million)	RMB2.3 million (approximately HK\$2.5 million)	RMB2.2 million (approximately HK\$2.4 million) <i>(Note 1)</i>
Annual cap	RMB5 million (approximately HK\$5.4 million)	RMB5 million (approximately HK\$5.4 million)	RMB5 million (approximately HK\$5.4 million)

Notes:

(1) The actual amount incurred for the eleven months ended 30 November 2023.

The historical amounts stated above are exclusive of value-added tax.

2024 Annual Caps

Assuming that the 2024 Jiangxi Lease Agreement is renewed for each of the financial years ending 31 December 2025 and 31 December 2026, the proposed 2024 Jiangxi Lease Annual Caps for each of the three years commencing from 1 January 2024 up to and including 31 December 2026 are as follows:

Year ending 31 December 2024	Amount Year ending 31 December 2025	Year ending 31 December 2026
RMB5 million (approximately HK\$5.4 million)	RMB5 million (approximately HK\$5.4 million)	RMB5 million (approximately HK\$5.4 million)

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

The 2024 Jiangxi Lease Annual Caps were based on the agreed fixed monthly lease rates under the 2024 Jiangxi Lease Agreement which was arrived at on normal commercial terms after arm's length negotiation with reference to (i) the historical monthly lease rates between Jiangxi Chemical and LMP under the 2021 Jiangxi Lease Agreements; (ii) the anticipated number of staff of the LMP Group; and (iii) the lease rates of similar properties charged by independent third parties in the nearby area.

II. REASONS FOR AND BENEFITS OF THE CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

The 2024 Jiangsu Lease Agreement and 2024 Jiangxi Lease Agreement were entered into with a view for the various subsidiaries of the Company to take advantage of the strategic location of the office and accommodation facilities of LMP and to enhance and promote the strategic positioning and the business operation efficiency of the Company in Jiangsu and Jiangxi province. The income to be received by the Company from the 2024 Jiangxi Lease Agreement will also provide long-term and steady income flow for the Company and maximise utilisation of the relevant premises.

The Directors (including the independent non-executive Directors) are of the view that the 2024 Lease Agreements are in the ordinary and usual course of the Company's businesses. The Directors (including the independent non-executive Directors) are also of the view that the terms of the 2024 Lease Agreements are fair and reasonable, on normal commercial terms and are in the interests of the Company and its shareholders as a whole.

III. GENERAL

The Company and its subsidiaries are principally engaged in the manufacture and sale of chemical products. The principal business of Jiangsu Chemical and Jiangxi Chemical is in the production and sale of industrial chemical products with the production facilities in Jiangsu and Jiangxi provinces respectively.

LMP and its subsidiaries are principally engaged in large-scale paper manufacturing and specialize in the production of linerboard, corrugating medium and tissue paper. The principal business of Jiangsu Paper and Jiangxi Paper is the manufacturing and trading of paper with production facilities in Jiangsu and Jiangxi provinces respectively. The principal business of Jiangxi Tissue is the manufacturing and trading of tissue products with production facilities in Jiangxi province.

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of the Company. Jiangsu Paper, Jiangxi Paper and Jiangxi Tissue are indirect wholly-owned subsidiaries of LMP.

As at the date of this announcement, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, executive directors of LMP and each holding approximately 31.5% and 30.2%, respectively, of the issued shares of LMP, are associates of Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65% issued shares in the Company. Therefore, Jiangsu Paper, Jiangxi Paper, Jiangxi Tissue and LMP are connected persons of the Company under the Listing Rules.

As Jiangsu Chemical entered into the 2024 Jiangsu Lease Agreement as lessee, the Fixed Lease Payment is recognized as right-of-use assets under HKFRS 16 “Leases” and constitutes a one-off connected transaction for the Company. On the other hand, since Jiangxi Chemical entered into the 2024 Jiangxi Lease Agreement as lessor, it constitutes a continuing connected transaction for the Company and it is required to set an annual cap on the annual rental income received.

Ms. Wai Siu Kee and Mr. Lee Man Yan (who are Directors and are associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun) had abstained from voting on the board resolutions of the Company in relation to the 2024 Lease Agreements.

Save as aforesaid, no other Director has any material interest in the 2024 Lease Agreements or was required to abstain from voting at the board meeting of the Company in relation to the same.

IV. LISTING RULES IMPLICATIONS

The relevant percentage ratios under the Listing Rules in respect of the value of the right-of-use assets under the 2024 Jiangsu Lease Agreement and the 2024 Jiangxi Lease Annual Caps are respectively more than 0.1% but less than 5%. Accordingly, the 2024 Jiangsu Lease Agreement and the 2024 Jiangxi Lease Agreement will be subject to the reporting, announcement and annual review requirements but are exempt from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

V. DEFINITIONS

The following defined terms are used in this announcement:

“2021 Jiangsu Lease Agreement”	the agreement dated 31 December 2020 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper (as lessor) would lease certain properties to Jiangsu Chemical (as lessee), details of which are set out in the announcement of the Company dated 4 January 2021;
“2021 Jiangxi Lease Agreements”	two agreements dated 31 December 2020 entered into between: (i) Jiangxi Chemical and Jiangxi Tissue; and (ii) Jiangxi Chemical and Jiangxi Paper, pursuant to which Jiangxi Chemical (as lessor) would lease certain properties to Jiangxi Tissue and Jiangxi Paper respectively (each as lessee), details of which are set out in the announcement of the Company dated 4 January 2021;
“2024 Jiangsu Lease Agreement”	the agreement dated 29 December 2023 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper (as lessor) would lease certain properties to Jiangsu Chemical (as lessee), details of which are set out in this announcement;
“2024 Jiangxi Lease Agreement”	the agreement dated 29 December 2023 entered into between and among Jiangxi Chemical, Jiangxi Paper and Jiangxi Tissue, pursuant to which Jiangxi Chemical (as lessor) would lease certain properties to Jiangxi Tissue and Jiangxi Paper respectively (each as lessee), details of which are set out in this announcement;

“2024 Jiangxi Lease Annual Caps”	the maximum annual consideration to be received for leasing certain properties under the 2024 Jiangxi Lease Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026, details of which are set out in this announcement;
“2024 Lease Agreements”	the 2024 Jiangsu Lease Agreement and the 2024 Jiangxi Lease Agreement collectively;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Company”	Lee & Man Chemical Company Limited 理文化工有限公司, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Fixed Lease Payment”	the amount payable by Jiangsu Chemical (as lessee) to Jiangsu Paper (as lessor) for the right to use the third floor office space and staff quarters for a monthly rate under the 2024 Jiangsu Lease Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time;
“Jiangsu Chemical”	Jiangsu Lee & Man Chemical Limited 江蘇理文化工有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited 江蘇理文造紙有限公司, a foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;

“Jiangxi Chemical”	Jiangxi Lee & Man Chemical Limited 江西理文化工有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Jiangxi Paper”	Jiangxi Lee & Man Paper Manufacturing Limited 江西理文造紙有限公司, a foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“Jiangxi Tissue”	Jiangxi Lee & Man Tissue Manufacturing Limited 江西理文衛生用紙製造有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“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”	People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

For illustration purposes only, the exchange rate of RMB1 = HK\$1.08 has been adopted for translating RMB into HK\$ in this announcement.

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

Hong Kong, 29 December 2023

As at the date of this announcement, the board of directors of the Company 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. Wan Chi Keung, Aaron BBS JP, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk.