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If you have sold or transferred all your securities in Lee & Man Chemical Company 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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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)

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

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



A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular and a letter from Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 32 to 81 of this circular.

A notice convening the EGM of the Company to be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Friday, 22 March 2024 at 11:30 a.m. is set out on pages 86 to 88 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 Secretaries Limited, at 17/F, 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.

7 March 2024

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DEFINITIONS

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

“2021 Chemicals Purchase Agreement”	the agreement dated 31 December 2020 (and as amended by the supplemental agreement dated 25 April 2022) entered into between the Company (as supplier) and LMP (as purchaser) pursuant to which the Group would supply various industrial chemical products to the LMP Group, details of which are set out in the joint announcement of LMP and the Company dated 31 December 2020 and 25 April 2022;
“2021 Continuing Connected Transaction Agreements”	the 2021 Jiangsu Steam and Electricity Agreement, 2021 Jiangxi Steam and Electricity Agreement and the 2021 Chemicals Purchase Agreement collectively;
“2021 Jiangsu Steam and Electricity Agreement”	the agreement dated 31 December 2020 entered into between Jiangsu Paper and Jiangsu Chemical in relation to the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical, details of which are set out in the joint announcement of LMP and the Company dated 31 December 2020;
“2021 Jiangxi Steam and Electricity Agreement”	the agreement dated 31 December 2020 between Jiangxi Chemical and LMP in relation to the supply of steam and electricity by Jiangxi Chemical to the LMP Group, details of which are set out in the joint announcement of LMP and the Company dated 31 December 2020;
“2024 Chemicals Purchase Agreement”	the agreement dated 29 December 2023 entered into between the Company (as supplier) and LMP (as purchaser) pursuant to which the Group would supply various industrial chemical products to the LMP Group;
“2024 Chemicals Purchase Annual Caps”	the maximum annual consideration to be paid or received for the supply of various industrial chemical products by the Group to the LMP Group under the 2024 Chemicals Purchase Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026;
“2024 Continuing Connected Transaction Agreements”	the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement collectively;

DEFINITIONS

“2024 Jiangsu Steam and Electricity Agreement”	the agreement dated 29 December 2023 entered into between Jiangsu Paper and Jiangsu Chemical in relation to the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical;
“2024 Jiangsu Steam and Electricity Annual Caps”	the maximum annual consideration to be paid or received for the supply of electricity and steam by Jiangsu Paper to Jiangsu Chemical under the 2024 Jiangsu Steam and Electricity Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026;
“2024 Jiangxi Steam and Electricity Agreement”	the agreement dated 29 December 2023 entered into between Jiangxi Chemical and LMP in relation to the supply of steam and electricity by Jiangxi Chemical to the LMP Group;
“2024 Jiangxi Steam and Electricity Annual Caps”	the maximum annual consideration to be paid or received for the supply of electricity and steam by Jiangxi Chemical to the LMP Group under the 2024 Jiangxi Steam and Electricity Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Changshu NDRC”	the National Development and Reform Commission of Changshu city of Jiangsu province
“close associates”	has the meaning ascribed thereto in the Listing Rules;
“CMS”	chloromethane, which include methyl chloride, methylene chloride and chloroform
“Company”	Lee & Man Chemical Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held on 22 March 2024 at 11:30 a.m.. for Independent Shareholders to approve, if thought fit, the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a board committee comprising of Mr. Heng Victor Ja Wei, Mr. Wan Chi Keung Aaron and Mr. Wong King Wai Kirk, which will make recommendations to the Independent Shareholders in respect of 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder;
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed by the SFC for carrying out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM on the resolutions with respect to the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder;
“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;

DEFINITIONS

“Latest Practicable Date”	1 March 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“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 (Stock code: 2314);
“LMP Group”	LMP and its subsidiaries;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“ton”	a metric ton, a measurement of mass equal to 1,000 kilograms;
“VAT”	value added tax; and
“%”	per cent.

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

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Wai Siu Kee (*Chairman*)
Mr. Lee Man Yan
Professor Chan Albert Sun Chi
Mr. Yang Zuo Ning

Independent Non-executive Directors:

Mr. Wan Chi Keung, Aaron *BBS JP*
Mr. Heng Victor Ja Wei
Mr. Wong King Wai Kirk

Registered Office:

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

*Principal Place of Business
in Hong Kong:*

Unit B, 35th Floor
Lee & Man Commercial Centre
169 Electric Road, North Point
Hong Kong

7 March 2024

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the joint announcement made by the Company and LMP dated 29 December 2023 in relation to, among others, the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and 2024 Chemicals Purchase Agreement. As the 2021 Continuing Connected Transaction Agreements expired on 31 December 2023, the relevant members of the LMP Group and the Group entered into the 2024 Continuing Connected Transaction Agreements to renew the aforementioned agreements for a term of three years from 1 January 2024 up to and including 31 December 2026.

LETTER FROM THE BOARD

The purpose of this circular is to (i) provide you with further information in relation to the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and 2024 Chemicals Purchase Agreement and the transactions contemplated thereunder; (ii) set out the opinions and recommendations of the Independent Board Committee and the Independent Financial Adviser; and (iii) give you notice of the EGM at which the resolutions set out therein will be proposed. The EGM will be held on 22 March 2024 for the purpose of obtaining the approval from the Independent Shareholders in respect of the subject transactions.

2024 JIANGSU STEAM AND ELECTRICITY AGREEMENT

The key terms of the 2024 Jiangsu Steam and Electricity Agreement are set out as follows:

Date: 29 December 2023

Parties: (i) Jiangsu Paper (as supplier)
(ii) Jiangsu Chemical (as purchaser)

Nature of Transaction: Jiangsu Paper will generate and supply steam and electricity to Jiangsu Chemical.

The coal for generating the steam and electricity shall be supplied by Jiangsu Chemical to Jiangsu Paper in advance. The quantity of coal to be supplied by Jiangsu Chemical would depend on the monthly actual consumption of steam and electricity of Jiangsu Chemical.

Jiangsu Chemical will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. Jiangsu Chemical will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.

Term of Agreement: 3 years commencing from 1 January 2024 up to and including 31 December 2026.

Payment: Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by Jiangsu Chemical (using its internal financial resources) within 14 days after the end of each month based on actual consumption of the amount of steam and electricity but subject to the limits of the 2024 Jiangsu Steam and Electricity Annual Caps.

LETTER FROM THE BOARD

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 generally in line with those available from the state-owned power grid corporations and that the credit period is within the range of normal credit period granted by the Group's suppliers (being 7 days to 45 days) for the financial year ended 31 December 2022.

Pricing Policy:

The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangsu Paper, plus a margin of not more than 25%. The upper limit of the margin is determined with reference to the reference prices prescribed or charged by the government authorities or state suppliers. This means that whilst the margin fluctuates depending on certain cost components, the overall margin will still be lower than that compared to large scale governmental authorities or state grid suppliers, given the relatively lower cost base for a much smaller scale of production in this case compared to state suppliers, whilst maintaining a relatively stable overall price and supply for Jiangsu Chemical.

Jiangsu Chemical shall reimburse Jiangsu Paper all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangsu Paper (which shall be based on actual amounts incurred).

The 2024 Jiangsu Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of the Company and LMP against, among others, those available from government authorities such as the Changshu NDRC and the State Grid Corporation of China (being a state-owned electricity utility company) in the Jiangsu province to determine the reasonableness and competitiveness of pricing of steam and electricity, respectively.

LETTER FROM THE BOARD

The Directors consider that it is impractical for Jiangsu Chemical to purchase steam and electricity from other suppliers except from the LMP Group taking into account the fact that there are no independent third party suppliers which could supply steam to Jiangsu Chemical in close proximity and the fact that it would be commercially impractical to establish another set of infrastructure in order to source from governmental or state grid suppliers, not to mention the likely higher ongoing costs given the longer distance for the supply. In addition, such governmental suppliers have numerous customers and would therefore not be able to match Jiangsu Paper's services specifically tailored to Jiangsu Chemical for extra stability.

As the price of steam supplies in a particular transaction is highly dependent on, among others, the distance of steam being transported (and therefore the steam sales price in other market transactions may not be comparable), the Directors are of the view that the mid-range sale prices of steam published by Changshu NDRC which serve as the only government-prescribed reference sales price for and accessible to thermoelectricity enterprises in Changshu city only (being where Jiangsu Paper's power plant is located) are appropriate benchmarks given the low comparability of market transactions.

Taking into consideration of the above background and circumstances and the semi-annual price adjustment, the Directors consider the pricing terms to be on normal commercial terms and in the interest of the Shareholders as a whole.

2024 JIANGXI STEAM AND ELECTRICITY AGREEMENT

The key terms of the 2024 Jiangxi Steam and Electricity Agreement are set out as follows:

Date: 29 December 2023

Parties: (i) Jiangxi Chemical (as supplier)
(ii) LMP (as purchaser)

LETTER FROM THE BOARD

Nature of Transaction: Jiangxi Chemical will generate and supply steam and electricity to LMP (or any other member of the LMP Group).

The coal for generating the steam and electricity shall be supplied by the LMP Group to Jiangxi Chemical in advance. The quantity of coal to be supplied by the LMP Group would depend on the monthly actual consumption of the steam and electricity of the LMP Group.

The LMP Group will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. The LMP Group will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.

Term of Agreement: 3 years commencing from 1 January 2024 up to and including 31 December 2026.

Payment: Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by the LMP Group (using its internal financial resources) within 14 days after the end of each month based on actual consumption amount of steam and electricity but subject to the limits of the 2024 Jiangxi Steam and Electricity Annual Caps.

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 generally in line with those available from the state-owned power grid corporations and that the credit period is within the range of normal credit terms granted to the Group's customers (being 7 days to 60 days upon delivery) for the financial year ended 31 December 2022.

LETTER FROM THE BOARD

Pricing Policy:

The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangxi Chemical, plus a margin of not more than 25%. The upper limit of the margin is determined with reference to the reference prices prescribed or charged by the government authorities or state suppliers. This means that whilst the margin fluctuates depending on certain cost components, the overall margin will still be lower than that compared to large scale governmental authorities or state grid suppliers, given the relatively lower cost base for a much smaller scale of production in this case compared to state suppliers, whilst maintaining a relatively stable overall price and income to Jiangxi Chemical.

LMP shall reimburse Jiangxi Chemical all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangxi Chemical (which shall be based on actual amounts incurred).

The 2024 Jiangxi Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of the Company and LMP against, among others, those available from government authorities such as the Changshu NDRC and the State Grid Corporation of China (being a state-owned electricity utility company) in Jiangxi province to determine the reasonableness and competitiveness of pricing of steam and electricity, respectively.

LETTER FROM THE BOARD

The Directors consider that it is impractical for Jiangxi Chemical to supply surplus steam and electricity to other buyers except to the LMP Group taking into account the fact that there are no independent third party buyers which could purchase steam from Jiangxi Chemical in close proximity and that supplying LMP on an ongoing basis would mean that additional unused steam and electricity would not go wasted and would generate steady income to Jiangxi Chemical whilst creating synergies with LMP (who is also the Company's supplier) generally.

As the price of steam supplies in a particular transaction is highly dependent on, among others, the distance of steam being transported (and therefore the steam sales price in other market transactions may not be comparable) and also that no reference price has been prescribed by the government authorities in Ruichang city of Jiangxi province (where Jiangxi Chemical's power plant is located), the Directors are of the view that the mid-range sale prices of steam published by Changshu NDRC are appropriate benchmarks given the low comparability of market transactions and the similar unit cost of production for power generation in Jiangsu and Jiangxi provinces.

Taking into consideration of the above background and circumstances and the semi-annual price adjustment mechanism, the Directors consider the pricing terms to be on normal commercial terms and in the interest of the Shareholders as a whole.

2024 CHEMICALS PURCHASE AGREEMENT

The key terms of the 2024 Chemicals Purchase Agreement are set out as follows:

- Date: 29 December 2023
- Parties: (i) LMP (as purchaser)
- (ii) the Company (as supplier)

LETTER FROM THE BOARD

Nature of Transaction: LMP (or any other member of the LMP Group) will purchase various industrial chemical products from the Company (or any other member of the Group) by placing purchase order(s).

The Group will be responsible for the transportation of the industrial chemical products to the LMP Group while the transportation costs will be borne by the LMP Group.

There is no minimum amount of industrial chemical products required to be purchased by the LMP Group but the aggregate amount of all purchase orders placed by the LMP Group shall not exceed the 2024 Chemicals Purchase Annual Caps.

Pursuant to the 2024 Chemicals Purchase Agreement, the Group will supply a wide spectrum of industrial chemical products to the LMP Group, depending on the LMP Group's needs from time to time and the Group's evolving product range taking into account future technical enhancements and/or new development of products. The Group will supply industrial chemical products to the LMP Group which include (but are not limited to) caustic soda, styrene-acrylic latex surface sizing agent and polyaluminium chloride.

Term of Agreement: 3 years commencing from 1 January 2024 up to and including 31 December 2026.

Payment: Delivery will be made by the 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 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.

LETTER FROM THE BOARD

The Board is of the view that the above payment terms are fair, reasonable and on normal commercial terms taking into account that the credit period is at the mid-range of standard credit periods granted to the Group's customers (being 7 days to 60 days upon delivery) for the financial year ended 31 December 2022.

Pricing Policy and Price
Determination Procedures:

The price and terms of payment under the 2024 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices per ton of the type of industrial chemical products required at the relevant time when purchase orders are made provided that the price paid by the LMP Group shall not be less than those available to the Company from independent third party buyers.

In determining such prices and terms of sales to the LMP Group, the 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.

LETTER FROM THE BOARD

In the usual course, the sales team of the Group would, on a weekly basis, decide on the sales price range for different chemical products which apply to all customers equally (including independent third party customers and the LMP Group). The price range is determined based on the latest pricing information gathered from a number of relevant websites which publish information on pricing (which appear to be updated on a weekly basis). These websites provide industry information such as pricing, repairs, operation rates, production capacity and data analysis, and it is the industry practice for buyers and suppliers to refer to these websites to assess the recent market price of chemical products. For chemical products which are commonly found in similar quality and specifications in the marketplace, such as caustic soda, the sales team of the Group will refer to certain pricing websites it subscribed to, which grant the Group access to databases of market pricing quotations in relation to these chemical products, for example the SCI Price Center (prices.sci99.com). However, for specialty chemical products, such as polyaluminium chloride and styrene-acrylic latex surface sizing agent, the pricing may not be directly comparable to market prices because the chemical formula and composition of specialty chemical products are tailored to the specific use of the customer. The exact mix and composition of the chemical formula is unique and therefore cannot be found and compared against those readily available in the market. For the pricing of such specialty chemical products, the sales team of the Group would refer to the general price range as found in the market, from websites which provide market price information such as makepolo.com (b2b.makepolo.com) and Baidu (b2b.baidu.com), with varied composition and quality to arrive at a reasonable profit margin for the sales of such products.

In the usual course, the LMP Group would contact the sales team of the Group for the purchase of industrial chemical products. This would involve a discussion on the type and quantity of the industrial chemical products needed, the delivery time and location and the LMP Group's indicative purchase price.

LETTER FROM THE BOARD

Upon receiving the pricing request from LMP Group, the sales team will then inform the finance department to then make enquiries of the relevant criteria for deciding sales price (which include quantity of sales, delivery and transportation costs) and check the inventory level of such requested chemical type to ascertain the inventory level of such chemicals the Group has at the time and relevant costs of production. The sales team will also check with the 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.

Once the sales team has gathered information on these criteria, the above findings would be consolidated and reported to the Company's head of sales who would then decide on the proposed sales price (based on the same set of criteria mentioned above applicable to all customers) for sales team to go back to the LMP Group, ensuring such sales will generate reasonable profits and on normal commercial terms for the Company. The LMP Group would then decide whether to accept the proposed sales price based on its pricing policy.

Considering the pricing policies as outlined above and that the respective transactions contemplated under the 2024 Continuing Connected Transaction Agreements will be subject to annual review by the independent non-executive Directors and the auditors of the Company, the Directors (including the members of the Independent Board Committee whose opinion is given after considering the advice of the Independent Financial Adviser) believe that the pricing policy (including the price determination procedures) outlined above and the internal control measures (including the price adjustment mechanism) outlined below are sufficient to ensure that the respective transactions contemplated under each of the 2024 Continuing Connected Transaction Agreements will be conducted on normal commercial terms or better and not prejudicial to the interests of the Company and Independent Shareholders.

LETTER FROM THE BOARD

INTERNAL CONTROL PROCEDURES

The Group has implemented and will continue to implement the following internal control procedures in relation to the 2024 Continuing Connected Transaction Agreements:

- (i) the Company will continuously monitor and conduct monthly evaluations of the actual transaction amounts thereunder to ensure that the actual transaction amounts will not exceed the relevant annual caps stated in the 2024 Continuing Connected Transaction Agreements;
- (ii) the Company will also conduct semi-annual reviews of the transactions conducted under each of the 2024 Continuing Connected Transaction Agreements to consider the effectiveness of the pricing policies and the payment methods, identify management weaknesses, and recommend improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable; and
- (iii) the sales team of the Group will conduct regular checks to review and assess whether the continuing connected transactions under the 2024 Continuing Connected Transaction Agreements are conducted in accordance with the terms therein.

In relation to the 2024 Chemicals Purchase Agreement, the sales team of the Group will obtain weekly updates on the market prices of various chemical products with reference to pricing websites to decide on the price range for each chemical product applicable to all sales to be made during that week. As the weekly price range of chemical products apply to, and that the head of sales of the Group would decide on the proposed sales price based on the same set of criteria for, all customers equally, the Directors are of the view that the terms being offered by the Group to the LMP Group are no more favourable than the terms available to independent third party customers.

In relation to the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement, (i) in terms of the electricity service fees, the Group will, on a semi-annual basis, compare the all-inclusive costs for generation of electricity (i.e. service fees for generating electricity plus the cost of coal fuel) to be charged or paid by the Group with the State Grid Corporation of China of Jiangsu province and Jiangxi province respectively and to adjust the service fees with reference to the most recent reference prices available from State Grid Corporation of China as explained below; and (ii) in terms of the steam service fees, the Group will monitor the mid-range reference steam price (中準價格) as published in the Notice on Adjustments of Sales Prices of Steam (關於調整蒸汽銷售價格的通知) issued by the National Development and Reform Commission in Changshu city on the government website or through government notices from time to time.

LETTER FROM THE BOARD

In terms of price adjustment mechanism for steam and electricity under both 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement, the Group will conduct price review at least on a semi-annual basis (and additionally for steam, subsequent to each government notice publication) to determine if price adjustment is needed for prospective transactions in the next six months period before the next price review. Price review on a semi-annual basis caters for the relatively small fluctuation of the adjusted sales price after eliminating the impact of change in coal prices which will be borne by the purchaser. In each price review, the management of the Group and the LMP Group will refer to the most recent government reference prices to mutually determine the net change in sales price (adjusted for the change in recent coal prices) and then compare the unit cost with such adjusted reference prices and agree on the price adjustment (if needed). Future sales price will not be adjusted so long as the estimated margin to be charged by the Company (calculated by comparing the current coal-adjusted sales price and production costs) does not exceed the 25% threshold, such that the overall pricing will be maintained at relatively stable level (while actual margin may fluctuate within the 25% upper limit depending on the sales price) to ensure steady supply and income to Jiangxi Chemical at the same time.

Given the synergies between the Group and the LMP Group in supplying electricity and steam to each other, and the expected long term supply relationship, and taking into account the tailored arrangements for each other to minimise potential disruption of supply, the overall margin for both the Group (as supplier under the 2024 Jiangxi Steam and Electricity Agreement) and the LMP Group (as supplier under the 2024 Jiangsu Steam and Electricity Agreement) is expected to be about the same. The Directors are of the view that the price adjustment mechanism helps to ensure the unit price of steam and electricity remains within reasonable range of market rates and that production costs with a reasonable margin will be charged or paid.

The independent non-executive Directors will conduct an annual review of the transactions under each of the 2024 Continuing Connected Transaction Agreements pursuant to Rule 14A.55 of the Listing Rules.

The auditor of the Company will conduct an annual review of the transactions under each of the 2024 Continuing Connected Transaction Agreements pursuant to Rule 14A.56 of the Listing Rules.

LETTER FROM THE BOARD

HISTORICAL AMOUNTS

The aggregate transaction amounts actually incurred for the services or products provided or received under the 2021 Jiangsu Steam and Electricity Agreement, the 2021 Jiangxi Steam and Electricity Agreement and the 2021 Chemicals Purchase Agreement as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Year ended 31 December 2021	Amount Year ended 31 December 2022	Year ended 31 December 2023
2021 Jiangsu Steam and Electricity Agreement			
Actual amount incurred			
Services to generate steam and electricity by Jiangsu Paper to Jiangsu Chemical	RMB69 million (approximately HK\$75 million)	RMB73 million (approximately HK\$79 million)	RMB70 million (approximately HK\$76 million) <i>(Note 1)</i>
Annual cap			
	RMB80 million (approximately HK\$86 million)	RMB80 million (approximately HK\$86 million)	RMB80 million (approximately HK\$86 million)
2021 Jiangxi Steam and Electricity Agreement			
Actual amount incurred			
Services to generate steam and electricity by Jiangxi Chemical to the LMP Group	RMB72 million (approximately HK\$78 million)	RMB60 million (approximately HK\$65 million)	RMB62 million (approximately HK\$67 million) <i>(Note 1)</i>
Annual cap			
	RMB100 million (approximately HK\$108 million)	RMB105 million (approximately HK\$113 million)	RMB110 million (approximately HK\$119 million)

LETTER FROM THE BOARD

Transaction type	Year ended 31 December 2021	Amount Year ended 31 December 2022	Year ended 31 December 2023
2021 Chemicals Purchase Agreement			
Actual amount incurred			
Purchase of various industrial chemical products from the Group by the LMP Group	RMB154 million (approximately HK\$166 million)	RMB155 million (approximately HK\$167 million)	RMB158 million (approximately HK\$171 million) <i>(Note 1)</i>
Annual cap			
	RMB175 million (approximately HK\$189 million)	RMB320 million (approximately HK\$346 million) <i>(Note 2)</i>	RMB320 million (approximately HK\$346 million) <i>(Note 2)</i>

Notes:

- (1) The actual transaction amounts incurred for the year ended 31 December 2023 are based on the unaudited financial results of the Company.
- (2) These are the revised annual caps pursuant to the supplemental agreement entered into between the Company and LMP on 25 April 2022 to amend the annual caps for the 2021 Chemicals Purchase Agreement. Further details are set out in the joint announcement of the Company and LMP dated 25 April 2022.

LETTER FROM THE BOARD

2024 ANNUAL CAPS

The proposed 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps and the 2024 Chemicals Purchase Annual Caps for each of the three years commencing from 1 January 2024 up to and including 31 December 2026 are as follows:

Type of Transaction	Amount		
	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026
2024 Jiangsu Steam and Electricity Annual Caps	RMB120 million (approximately HK\$130 million)	RMB130 million (approximately HK\$140 million)	RMB130 million (approximately HK\$140 million)
2024 Jiangxi Steam and Electricity Annual Caps	RMB130 million (approximately HK\$140 million)	RMB135 million (approximately HK\$146 million)	RMB135 million (approximately HK\$146 million)
2024 Chemicals Purchase Annual Caps	RMB390 million (approximately HK\$421 million)	RMB390 million (approximately HK\$421 million)	RMB390 million (approximately HK\$421 million)

The annual caps stated above are exclusive of VAT.

Type of Transaction	Actual amounts incurred as from 1 January 2024 up to and including the Latest Practicable Date (Approximate)
2024 Jiangsu Steam and Electricity Agreement	RMB12.3 million (approximately HK\$13.3 million)
2024 Jiangxi Steam and Electricity Agreement	RMB11.6 million (approximately HK\$12.5 million)
2024 Chemicals Purchase Agreement	RMB24.2 million (approximately HK\$26.1 million)

The transaction amounts incurred in connection with the same transactions under each of the 2024 Continuing Connected Transaction Agreements from 1 January 2024 up to and including the Latest Practicable Date are within the de minimis threshold for connected transactions and exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

2024 Jiangsu Steam and Electricity Annual Caps

The 2024 Jiangsu Steam and Electricity Annual Caps have been determined with reference to the following factors:

- (i) the amount of historical transactions between Jiangsu Paper and Jiangsu Chemical;

The utilisation rate of the annual caps under the 2021 Jiangsu Steam and Electricity Agreement have been well over 80% for the past three years and in particular, it reached approximately 91% for the year of 2022. The relatively high utilization rate is due to the continuous growth in the production capacity of industrial chemical products of Jiangsu Chemical. As such, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards to allow further growth in the production capacity of Jiangsu Chemical.

- (ii) Jiangsu Paper's own anticipated consumption requirements;
- (iii) the spare steam and electricity capacity of Jiangsu Paper available for Jiangsu Chemical's requirements;

The Group requested the projected production capacity and consumption requirements from Jiangsu Paper and it is noted that Jiangsu Paper has spare steam and electricity capacity to supply to the Group after deducting its own anticipated consumption requirements, therefore the Directors consider that the upward adjustment of the annual caps is necessary in order to accommodate the Group's increased demand for steam and electricity as explained below.

- (iv) the production plans and the related actual/estimated requirements for steam and electricity of Jiangsu Chemical and Jiangsu Paper for the period from 1 January 2024 up to and including 31 December 2026; and

Based on the projected consumption requirements from various production facilities of Jiangsu Chemical, it is noted that the anticipated consumption requirements of the Company will first increase for the year ending 31 December 2024 and then remain relatively stable for the remaining term of the 2024 Jiangsu Steam and Electricity Agreement. The projection is due to the increased demand for steam and electricity from the expected commencement of one new production line of vinylene carbonate and chloro-ethylene carbonate products and resumption of CMS production line of Jiangsu Chemical in the Jiangsu province in 2024 and the relatively stable demand as it is expected that the factory site would have utilized its full production capacity during the years of 2025 and 2026. The planned production capacity of the CMS production lines and all production lines of Jiangsu Chemical (including the aforesaid new production line expected to commence in 2024) for the year ending 31 December 2024 are expected to increase by approximately 24.3% and 16.7%, respectively, as compared to the actual production volume for the year ended 31 December 2023, and are expected to remain relatively stable for the two years ending 31 December 2026.

LETTER FROM THE BOARD

- (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station for steam and electricity).

The Group estimated an annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads including 8% to 9% increment of labour costs of the Group during 2021 to 2023 and downward adjustments with reference to cost control on production overheads and turnover in labour forces as well as depreciation) for the unit price of steam and electricity services for the three years ending 31 December 2026 and that the LMP Group may incur additional governmental regulatory and related charges, including but not limited to carbon emission surcharges imposed by local government authorities, taking into account historical records for the three years ended 31 December 2023.

In determining the 2024 Jiangsu Steam and Electricity Annual Caps, the parties have also taken into account the expected increase in the production volume and utilisation rate of the production facilities of Jiangsu Chemical, which are expected to increase the demand for steam and electricity.

2024 Jiangxi Steam and Electricity Annual Caps

The 2024 Jiangxi Steam and Electricity Annual Caps have been determined with reference to following factors:

- (i) the amount of historical transactions between the LMP Group and Jiangxi Chemical;

The utilisation rate of the annual caps under the 2021 Jiangxi Steam and Electricity Agreement for the three years ended 31 December 2023 were 72.0%, 57.1% and 56.4%, respectively. The relatively lower utilization rates for the two years ended 31 December 2023 were due to the suspension of certain production facilities of the LMP Group in order to upgrade its manufacturing capabilities during the period. As disclosed in LMP's annual report for the year ended 31 December 2022 and interim report for the six months ended 30 June 2023, the LMP Group planned to commence production of its new pulp production lines in Jiangxi province in the second half of 2023 and the planned production capacity to be added is 300,000 tons of pulp. Given the resumption of the upgraded production facilities and these planned expansion of production capacity of the LMP Group during the term of 2024 Jiangxi Steam and Electricity Agreement, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards to accommodate the LMP Group's increased demand for steam and electricity.

LETTER FROM THE BOARD

- (ii) the production plans and the related actual/estimated steam and electricity requirements of the LMP Group and Jiangxi Chemical for the period from 1 January 2024 up to and including 31 December 2026;

The Group requested the projected consumption requirements from various production facilities of the LMP Group and it is noted that the anticipated consumption requirements of the LMP Group will first increase for the year ending 31 December 2024 and then remain relatively stable for the remaining term of the 2024 Jiangxi Steam and Electricity Agreement. The projection is due to the increased demand for steam and electricity from the abovementioned planned expansion of production capacity of the LMP Group in 2024 and the relatively stable demand as it is expected that the factory sites would have utilized their production capacity during the years of 2025 and 2026.

- (iii) Jiangxi Chemical's own anticipated consumption requirements;
- (iv) the spare steam and electricity capacity of Jiangxi Chemical available for the LMP Group's requirements; and

Considering the expected trend of the LMP Group's consumption requirements for the term of the 2024 Jiangxi Steam and Electricity Agreement, the Group reviewed its own production capacity and is of the view that there is room for additional sales to be made to the LMP Group after deducting Jiangxi Chemical's own anticipated consumption requirements. Therefore, the Directors consider that the upward adjustment of the annual caps is necessary in order to accommodate the LMP Group's increased demand for steam and electricity.

- (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station of steam and electricity).

The Group estimated an annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads including 8% to 9% increment of labour costs of the Group during 2021 to 2023 and adjusted downwards with reference to cost control on production overheads and turnover in labour forces) for the unit price of steam and electricity services for the three years ending 31 December 2026 and that the Group may incur additional governmental regulatory and related charges, including but not limited to carbon emission surcharges imposed by local government authorities, taking into account historical records for the three years ended 31 December 2023.

In determining the 2024 Jiangxi Steam and Electricity Annual Caps, the parties have also taken into account the LMP Group's demand for steam and electricity to increase compared with previous years because of the expected increase in the production volume and utilization rate of its production facilities.

LETTER FROM THE BOARD

2024 Chemicals Purchase Annual Caps

The 2024 Chemicals Purchase Annual Caps have been determined with reference to following factors:

- (i) the value of historical sales between members of the Group and the LMP Group;

The utilisation rate of the annual caps under the 2021 Chemicals Purchase Agreement for the three years ended 31 December 2023 were 88.0%, 48.4% and 49.4% respectively. The relatively lower utilization rates for the two years ended 31 December 2023 despite the strong demand from the LMP Group for some of the industrial chemical products were primarily due to drop in the prices of chemical products contributed by weak market sentiment and the digestion of higher-price raw materials accumulated from pandemic-related stockpiling during 2021. However, the Group considers that with the gradual ease of inflationary pressures and the normalization of economic activities, the market confidence and demand is expected to recover and the market price is expected to return to pre-pandemic level from the low level of 2022 and 2023. Further, the LMP Group expects increase in future production volume of tissue paper and other paper products. Taking into account these factors, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards.

- (ii) LMP's anticipated consumption requirements;

The estimated quantities of the chemical products to be purchased by the LMP Group is determined not only by reference to its historical purchase quantities during the term of the 2021 Chemicals Purchase Agreement, but also taking into account factors including but not limited to (i) the increase in the production capacity of the LMP Group's manufacturing plants; and (ii) the potential increase in demand of certain chemical products from the Company due to the increased demand for the LMP Group's paper products.

The increase in the production capacities of the LMP Group's manufacturing plants is primarily due to the expanded production capacity of its manufacturing plant in Guangxi and Jiangxi provinces and the commencement of production of additional production line in Malaysia since 2022, to which the Company has been supplying chemical products. The production facilities in Guangxi and Jiangxi provinces are expected to achieve full production capacity in 2024 and operate at full capacity during 2025 and 2026.

In recent years, there has been an increased demand for the LMP Group's paper products which also led to an increased demand of chemical products the LMP Group needed from the Company.

The Group requested the projected consumption requirements from various production facilities of the LMP Group to be prepared on the assumption that these production facilities operate at full production capacity during the three years ending 31

LETTER FROM THE BOARD

December 2026 and based on the projected requirements, the maximum annual transaction quantity between the Company and LMP for the three years ending 31 December 2026 are expected to increase by approximately 15% as compared with the annual caps for the two years ending 31 December 2023.

- (iii) the production capacity and estimated quantity of industrial chemical products to be manufactured by the Group; and

Considering the historical and expected increase in consumption requirements from the LMP Group, the Group reviewed its own production capacity and is of the view that there is room for additional sales to be made to the LMP Group in general. Therefore, the Directors consider that an increase in the annual caps is necessary in order to accommodate the potential increase in the LMP Group's demand for chemical products.

- (iv) the anticipated market price fluctuations for the period from 1 January 2024 up to and including 31 December 2026.

The estimated selling prices of the chemical products during the term of the 2024 Chemicals Purchase Agreement were determined by reference to the historical selling price ranges of the chemical products from 2021 to 2023. The Company observed the average selling price per ton of the Group's various chemical products to hit their historical peak during 2021 when the market demand suddenly surged due to disrupted supply chain during COVID-19 pandemic. The Company believes that the highest market price of various chemical products from 2021 to 2023 is an appropriate benchmark for determining the estimated selling prices for the three years ending 31 December 2026 as it provides sufficient buffers to cater for the possible market turbulence due to supply chain disruption or other factors beyond control of the Company and to accommodate the expected increase in market price during the term of the 2024 Chemicals Purchase Agreement.

There is an imminent need to adjust upwards the annual caps for the three years ending 31 December 2026 so that the Group is able to continue to provide a steady supply of quality industrial chemical products to the LMP Group in order to fulfil its production needs. Therefore, the Directors consider that an increase in the annual caps is necessary in order to cater for such significant market price fluctuations.

LETTER FROM THE BOARD

In determining the respective proposed new annual caps under each of the 2024 Continuing Connected Transaction Agreements, the parties have also taken into account the assumption that during the respective terms of the 2024 Continuing Connected Transaction Agreements, 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 Group.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement

Each of the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement was negotiated and agreed on an arms' length basis between the parties and based on normal commercial terms.

LMP and the Company have production plants located in the Jiangsu and Jiangxi provinces which require electricity and steam for manufacturing their paper and chemical products respectively. To facilitate the production process in the Jiangsu and Jiangxi provinces, LMP and the Company had (through their respective PRC subsidiaries) constructed their own power stations to supply the required electricity and steam for their production plants located in both the Jiangsu and Jiangxi provinces.

LMP's power station is located in Jiangsu province and the Company's power station is located in Jiangxi province.

The proximity of the power stations to the relevant operations mean that both the Company and LMP would be able to obtain electricity and steam at a lower price from each other than from other third party suppliers. As the steam supplies require control on pressure and temperature and supporting infrastructure for transportation, it is also impracticable to source steam except from suppliers in close proximity taking into account the high costs and difficulty of transporting steam including the laying of supply infrastructure and related costs and time which similarly applies to electricity. Supplies of electricity from independent external suppliers (including the State Grid Corporation of China) will not be as stable as compared to supplies from the power stations of the Company and LMP given the closer proximity and the tailored arrangement between the two groups which allows the parties to schedule their manufacturing operations on a timely basis whereas state suppliers are not able to match the Company's tailored requirement for extra stability due to much wider customer base. As the production plants of the Company and LMP are operated on a twenty-four hour basis, any power shortage or power failure would adversely affect the production lines and reduce the efficiency of manufacturing. Considering the satisfactory track record, the tailored arrangement and effective communication channels between the two groups, the 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement will therefore minimise the risk of production interruption by providing a consistent and stable supply of steam and electricity to the production plants of the Company and LMP located in Jiangsu and Jiangxi provinces.

LETTER FROM THE BOARD

This arrangement will also help both the Company and LMP to improve the utilization of their respective power stations as the supply of steam and electricity under the 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement represents surplus steam and electricity generated and produced at the respective power stations of which it will be virtually impracticable for the Group or the LMP Group to supply to third party customers in similar scale due to the locations of power stations. The overall operation efficiency of each of their power stations in Jiangsu and Jiangxi will be enhanced as a result of the economies of scale mainly attributable to the expected decrease in overheads, investment and financing costs of the power station with the increased production volume.

2024 Chemicals Purchase Agreement

The 2024 Chemicals Purchase Agreement will secure a long-term and steady supply of industrial chemical products to ensure fulfilment of the production needs of the LMP Group. The sale of industrial chemical products provides a long-term and steady income flow for the Group and creates synergy between both groups.

The close proximity of both LMP's and the Company's production facilities in some locations (for example, Jiangsu and Jiangxi provinces) also reduces transportation costs and provides a convenient and efficient platform for LMP to purchase and the Company to sell industrial chemical products.

INFORMATION ON THE PARTIES

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 is the manufacturing and trading of paper with production facilities in Jiangsu province.

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 the production and sales of industrial chemical products with the production facilities in Jiangsu and Jiangxi provinces respectively.

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of the Company. Jiangsu Paper is an indirect wholly-owned subsidiary of LMP.

GENERAL

As at the Latest Practicable Date, Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65% issued shares of the Company, is the brother of and hence an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive directors of LMP. As at the Latest Practicable Date, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun each holds 31.6% and 30.3% issued shares of LMP, respectively.

Accordingly, Jiangsu Paper and LMP is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the 2024 Continuing

LETTER FROM THE BOARD

Connected Transaction Agreements constitute continuing connected transactions for the Company under the Chapter 14A of the Listing Rules. As at the Latest Practicable Date, the Company does not hold any shares in LMP and vice versa.

The relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps and the 2024 Chemicals Purchase Annual Caps are more than 5%, respectively. Accordingly, each of the 2024 Continuing Connected Transaction Agreements and their respective annual caps are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and 2024 Chemicals Purchase Agreement are conditional upon the approval of the Independent Shareholders at the EGM.

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 Latest Practicable Date, Mr. Lee Man Yan and his associates (including Ms. Wai Siu Kee, the mother of Mr. Lee Man Yan) are interested in 618,750,000 shares of the Company, representing approximately 75% of the shares in the Company. Save for Mr. Lee Man Yan and his associates who will abstain from voting at the EGM of the Company to approve the 2024 Continuing Connected Transaction Agreements, no other Shareholders have a material interest in the 2024 Continuing Connected Transaction Agreements and are required to abstain from voting at the EGM of the Company.

Ms. Wai Siu Kee and Mr. Lee Man Yan (who is the associate 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 Continuing Connected Transaction Agreements. Save as aforesaid, no other director of the Company has any material interest in the 2024 Continuing Connected Transaction Agreements or was required to abstain from voting at the board meetings of the Company in relation to the same.

POLL PROCEDURE

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all the resolutions set out in the notice of the EGM shall be voted by poll. Votes may be given either personally or by proxy.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 30 to 31 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder.

The advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2024 Continuing Connected Transaction Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole are set out on pages 32 to 81 of this circular.

LETTER FROM THE BOARD

The Directors (including the members of the Independent Board Committee whose opinion is given after considering the advice of the Independent Financial Adviser) are of the view that each of the 2024 Continuing Connected Transaction Agreements is in the ordinary and usual course of the Company's businesses. The Directors (including the members of the Independent Board Committee whose opinion is given after considering the advice of the Independent Financial Adviser) are also of the view that the terms of each of the 2024 Continuing Connected Transaction Agreements are fair and reasonable, on normal commercial terms and are in the interests of the Company and its 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 transactions contemplated under the 2024 Continuing Connected Transaction Agreements.

FURTHER INFORMATION

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

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



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)

7 March 2024

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolution to approve the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder, 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 the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder, as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of, and the principal factors and reasons considered by, the Independent Financial Adviser in relation thereto as stated in its letter, we are of the view that each of the 2024 Continuing Connected Transaction Agreements is in the ordinary and usual course of the Company's businesses and we are also of the view that the terms of each of the 2024 Continuing Connected Transaction Agreements are fair and reasonable, on normal commercial terms and are in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Lee & Man Chemical Company Limited

Mr. Wan Chi Keung
Aaron *BBS JP*
Independent Non-executive
Director

Mr. Heng Victor Ja Wei
Independent Non-executive
Director

Mr. Wong King Wai Kirk
Independent Non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



7 March 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 7 March 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the joint announcement made by the Company and LMP dated 29 December 2023 (the “**Joint Announcement**”) in relation to, among others, (i) the 2024 Jiangsu Steam and Electricity Agreement and the transactions contemplated thereunder (the “**2024 Jiangsu Steam and Electricity Transactions**”); (ii) the 2024 Jiangxi Steam and Electricity Agreement and the transactions contemplated thereunder (the “**2024 Jiangxi Steam and Electricity Transactions**”); and (iii) the 2024 Chemicals Purchase Agreement and the transactions contemplated thereunder (the “**2024 Chemicals Purchase Transactions**”). As the 2021 Continuing Connected Transaction Agreements expired on 31 December 2023, the relevant members of the LMP Group and the Group entered into the 2024 Continuing Connected Transaction Agreements to renew the aforementioned agreements for a term of three years from 1 January 2024 up to and including 31 December 2026.

As at the Latest Practicable Date, Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65.0% issued shares of the Company, is the brother of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, both executive directors of LMP. As at the Latest Practicable Date, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun respectively holds approximately 31.6% and 30.3% issued shares of LMP. Accordingly, Jiangsu Paper and LMP are connected

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

persons of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the 2024 Continuing Connected Transaction Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, the 2024 Jiangxi Steam and Electricity Annual Caps and the 2024 Chemicals Purchase Annual Caps are more than 5%, respectively, each of the 2024 Continuing Connected Transaction Agreements and their respective annual caps are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Mr. Wan Chi Keung Aaron, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk, has been established by the Company to advise the Independent Shareholders as to (i) whether the terms of the 2024 Continuing Connected Transaction Agreements (including the respective proposed annual caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated under the 2024 Continuing Connected Transaction Agreements are conducted 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 (iii) how the Independent Shareholders should vote on the relevant resolutions to be proposed at the EGM. We, Lego Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or any interest in, the Company, Jiangsu Paper, LMP or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, we had acted as the independent financial adviser to the then independent board committee and independent shareholders of the Company in respect of the revision of annual caps for the transactions contemplated under the 2021 Chemicals Purchase Agreement, details of which were disclosed in the circular of the Company dated 1 June 2022. Apart from normal professional fees paid or payable to us in connection with the previous engagement and this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company. Accordingly, we consider that we are eligible to give independent advice in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have reviewed, among others, (i) the joint announcement made by the Company and LMP dated 31 December 2020 in relation to the 2021 Jiangsu Steam and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Electricity Agreement, the 2021 Jiangxi Steam and Electricity Agreement and the 2021 Chemicals Purchase Agreement; (ii) the circular of the Company dated 5 February 2021 in relation to the 2021 Chemicals Purchase Agreement; (iii) the joint announcement made by the Company and LMP dated 25 April 2022 in relation to the revision of annual caps for the transactions contemplated under the 2021 Chemicals Purchase Agreement; (iv) the circular of the Company dated 1 June 2022 in relation to, among others, the revision of annual caps for the transactions contemplated under the 2021 Chemicals Purchase Agreement; (v) the Joint Announcement; (vi) the annual reports of the Company for the years ended 31 December 2020, 2021 and 2022; (vii) the interim report of the Company for the six months ended 30 June 2023; (viii) the annual reports of LMP for the years ended 31 December 2021 and 2022; (ix) the interim report of LMP for the six months ended 30 June 2023; (x) the 2021 Continuing Connected Transaction Agreements; (xi) the 2024 Continuing Connected Transaction Agreements; and (xii) other information contained in the Circular.

In addition, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company (the “**Management**”). We have assumed that all the information, facts and representations contained or referred to in the Circular, and all the information, opinions and representations provided or expressed by the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. We have also assumed that all such opinions and statements of intention or belief expressed by the Directors and/or the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiries.

The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any relevant information has been withheld or omitted, nor are we aware of any facts or circumstances which would render the information provided, representations made or opinions expressed to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information currently available, and that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The 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 the Circular is accurate and complete in all material respects and not misleading or deceptive, and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

there are no other matters the omission of which would make any statement therein or the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the 2024 Continuing Connected Transaction Agreements and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

I. Background Information of the Parties Involved

1. Information of the Group

The Company and its subsidiaries (including Jiangsu Chemical and Jiangxi Chemical) are principally engaged in the manufacture and sale of chemical products. The Group's operations are located in the PRC and its production facilities are based in Jiangsu, Jiangxi and Guangdong Provinces. As stated in the annual report of the Company for the year ended 31 December 2022 (the "Annual Report 2022"), most of the Group's revenue from external customers were derived from the PRC for the two years ended 31 December 2022.

The following table summarises the financial results of the Group (i) for the year ended 31 December 2021 ("FY2021") and for the year ended 31 December 2022 ("FY2022") as extracted from the Annual Report 2022; and (ii) for the six months ended 30 June 2022 ("6M2022") and for the six months ended 30 June 2023 ("6M2023") as extracted from the interim report of the Company for 6M2023 (the "Interim Report 2023").

	FY2022	FY2021	6M2023	6M2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	5,867,037	5,185,942	1,996,136	3,250,758
Gross profit	2,123,541	2,338,924	440,984	1,441,404
Profit attributable to owners of the Company for the year/period	1,156,775	1,288,009	104,611	891,329
<i>Gross profit margin</i>	36.2%	45.1%	22.1%	44.3%
<i>Net profit margin</i>	19.7%	24.8%	5.2%	27.4%

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For FY2021 and FY2022

Revenue of the Group amounted to approximately HK\$5,867.0 million for the year ended FY2022, representing an increase of approximately 13.1% as compared to that of approximately HK\$5,185.9 million for FY2021. As disclosed in the Annual Report 2022, such increase was primarily due to the unit selling price remained at high level across most of the Group's main chemical products driven by their keen demand in most times during the year under review in 2022. Notwithstanding, for FY2022, the Group's gross profit and profit attributable to owners of the Company decreased by approximately 9.2% and 10.2%, respectively, as compared to those for FY2021. Such decreases were mainly attributable to an increase in the prices of raw materials due to inflation which imposed pressure on the Group's profitability.

For 6M2022 and 6M2023

Revenue of the Group amounted to approximately HK\$1,996.1 million for 6M2023, representing a decrease of approximately 38.6% as compared to that of approximately HK\$3,250.8 million for 6M2022. As disclosed in the Interim Report 2023, such decrease was due to decrease in revenue from the chemical operation mainly because pandemic-related stockpiling of the manufacturing industry that has kept the inventory level generally high, and resulted in weak downstream demand in the short term. As further disclosed in the Interim Report 2023, the prices of industrial raw materials, including chemical products were in low tide due to the unfavourable market conditions. Although raw materials prices have dropped significantly, the Group recorded a significant drop in its gross profit and profit attributable to owners of the Company for 6M2023, which decreased by approximately 69.4% and 88.3% as compared to those for 6M2022, respectively as it took time for downstream customers to digest the inventory of chemical materials produced earlier. Meanwhile, the Group's gross profit margin dropped by 22.2 percentage points period-on-period to 22.1% and the net profit margin also dropped by 22.2 percentage points period-on-period to 5.2%.

2. Information of the LMP Group

LMP and its subsidiaries (including Jiangsu Paper) are principally engaged in large-scale paper manufacturing and specialise in the production of linerboard, corrugating medium and tissue paper. With reference to the annual report of LMP for FY2022 (the "**LMP Annual Report 2022**"), the major source of revenue of the LMP Group was the sales of packaging paper which contributed over 80% of its revenue for the year. Furthermore, over 90% of the LMP Group's revenue for FY2022 were derived from external customers in the PRC.

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Set out below are the information on production capacity of the manufacturing plants of the LMP Group in 2021 and 2022 as extracted from the annual report of LMP for FY2021 and the LMP Annual Report 2022, respectively:

Location	Annual production capacity for 2022	Annual production capacity for 2021
1. Dongguan (Huangyong)	590,000 tons of paper	590,000 tons of paper
2. Jiangsu (Changshu)	1,120,000 tons of paper	1,120,000 tons of paper
3. Guangdong (Hongmei)	2,300,000 tons of paper and 110,000 tons of tissue paper	2,300,000 tons of paper and 110,000 tons of tissue paper
4. Chongqing (Yongchuan)	900,000 tons of paper, 250,000 tons of pulp and 575,000 tons of tissue paper	900,000 tons of paper, 180,000 tons of pulp and 575,000 tons of tissue paper
5. Jiangxi (Jiujiang)	720,000 tons of paper and 310,000 tons of tissue paper	720,000 tons of paper and 310,000 tons of tissue paper
6. Vietnam (Hau Giang)	550,000 tons of paper/products	550,000 tons of paper/products
7. Malaysia (Selangor)	1,050,000 tons of paper (<i>Note</i>) and 400,000 tons of pulp board	700,000 tons of paper and 400,000 tons of pulp board
8. Indonesia (Batam)	240,000 tons of pulp board	240,000 tons of pulp board
Total	9,115,000 tons of paper and related products	8,695,000 tons of paper and related products

Note: As disclosed in the interim report of LMP for 6M2023, the annual production capacity of paper has been further expanded to 1,400,000 tons in Malaysia.

II. 2024 Jiangsu Steam and Electricity Agreement

1. *Reasons for and benefits of the 2024 Jiangsu Steam and Electricity Transactions*

As disclosed in Letter from the Board, the 2024 Jiangsu Steam and Electricity Agreement was negotiated and agreed on an arms' length basis between the parties and based on normal commercial terms. Both the LMP Group and the Group have production plants located in Jiangsu Province which require electricity and steam for manufacturing their paper and chemical products, respectively. To facilitate the production process in Jiangsu Province, the LMP Group has constructed its own power

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station in the province to supply the required electricity and steam for its production plants located in Jiangsu Province.

Based on our discussion with the Management, we understand that the LMP Group has been supplying steam and electricity to the Group for the production of industrial chemical products in Jiangsu Province for over 15 years and thereby the Group has established and maintained a close business relationship with the LMP Group.

The proximity of the power station to the relevant operations means that both the Group and the LMP Group would be able to obtain electricity and steam supplies at a lower price than from other third-party suppliers. As the steam supplies require control on pressure and temperature and supporting infrastructure for transportation, it is also impracticable to source steam except from suppliers in close proximity taking into account the high costs and difficulty of transporting steam including the laying of supply infrastructure and related costs and time which similarly applies to electricity. Supplies of electricity from independent external suppliers (including the State Grid Corporation of China) will not be as stable as compared to supplies from the power station of the LMP Group given the closer proximity and the tailored arrangement between the two groups which allows the parties to schedule their manufacturing operations on a timely basis whereas state suppliers are not able to match the Company's tailored requirement for extra stability due to much wider customer base. As the production plants of the Group and the LMP Group are operated on a twenty-four-hour basis, any power shortage or power failure would adversely affect the production lines and reduce the efficiency of manufacturing. Considering the satisfactory track record, the tailored arrangement and effective communication channels between the two groups, the 2024 Jiangsu Steam and Electricity Agreement will minimise the risk of production interruption by providing a consistent and stable supply of steam and electricity to the production plants of the Group located in Jiangsu Province.

Further, this arrangement will also help the LMP Group to improve the utilisation of its power station as the supply of steam and electricity under the 2024 Jiangsu Steam and Electricity Agreement represents surplus steam and electricity generated and produced at its power station of which it will be virtually impracticable for the LMP Group to supply to third party customers in similar scale due to the location of the power station. The overall operation efficiency of its power station in Jiangsu Province will be enhanced as a result of the economies of scale mainly attributable to the expected decrease in overheads, investment and financing costs of the power station with the increased production volume.

In view of the above, we agree with the Directors that there is a need to maintain the business relationship between the Group and the LMP Group to ensure a stable supply of steam and electricity so that the Group will be able to continue to produce

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quality industrial chemical products in Jiangsu Province in order to fulfil its production needs and to stabilise the income stream of the Group.

Having considered the above reasons and benefits, we concur with the Directors' view that the 2024 Jiangsu Steam and Electricity Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2024 Jiangsu Steam and Electricity Agreement

Date:	29 December 2023
Parties:	(i) Jiangsu Paper (as supplier) (ii) Jiangsu Chemical (as purchaser)
Nature of Transaction:	Jiangsu Paper will generate and supply steam and electricity to Jiangsu Chemical. The coal for generating the steam and electricity shall be supplied by Jiangsu Chemical to Jiangsu Paper in advance. The quantity of coal to be supplied by Jiangsu Chemical would depend on the monthly actual consumption of steam and electricity of Jiangsu Chemical. Jiangsu Chemical will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. Jiangsu Chemical will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.
Term of Agreement:	Three years commencing from 1 January 2024 up to and including 31 December 2026.
Payment:	Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by Jiangsu Chemical (using its internal financial resources) within 14 days after the end of each month based on actual consumption of the amount of steam and electricity but subject to the limits of the 2024 Jiangsu Steam and Electricity Annual Caps.

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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 generally in line with those available from the stated-owned power grid corporations and that the credit period is within the range of normal credit period granted by the Group's suppliers (being 7 days to 45 days) for the financial year ended 31 December 2022.

For our due diligence purpose, we have obtained and reviewed the sample electricity bills charged to the Group by the state-owned power grid corporations during the three years ended 31 December 2023 and we noted that the credit period as stated in such electricity bills ranged from 18 days to 28 days. Further, we have reviewed the Annual Report 2022 and we noted that the range of normal credit period granted by the Group's suppliers is from 7 days to 45 days. Taking into account that the credit period of the 2024 Jiangsu Steam and Electricity Agreement is in line of those available from the state-owned power grid corporations and the Group's suppliers, we are of the view that the payment term for the 2024 Jiangsu Steam and Electricity Agreement is fair and reasonable.

Pricing Policy:

The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangsu Paper, plus a margin of not more than 25%. The upper limit of the margin is determined with reference to the reference prices prescribed or charged by the government authorities or state suppliers. This means that whilst the margin fluctuates depending on certain cost components, the overall margin will still be lower than that compared to large scale governmental authorities or state grid suppliers, given the relatively lower cost base for a much smaller scale of production in this case compared to state suppliers, whilst maintaining a relatively stable overall price and supply for Jiangsu Chemical.

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Jiangsu Chemical shall reimburse Jiangsu Paper all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangsu Paper (which shall be based on actual amounts incurred).

The 2024 Jiangsu Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of the Company and LMP against, among others, those available from government authorities such as the Changshu NDRC and the State Grid Corporation of China (being a state-owned electricity utility company) in the Jiangsu Province to determine the reasonableness and competitiveness of pricing of steam and electricity, respectively.

The Directors consider that it is impractical for Jiangsu Chemical to purchase steam and electricity from other suppliers except from the LMP Group taking into account the fact that there are no independent third party suppliers which could supply steam to Jiangsu Chemical in close proximity and the fact that it would be commercially impractical to establish another set of infrastructure in order to source from governmental or state grid suppliers, not to mention the likely higher ongoing costs given the longer distance for the supply. In addition, such governmental suppliers have numerous customers and would therefore not be able to match Jiangsu Paper's services specifically tailored to Jiangsu Chemical for extra stability.

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As the price of steam supplies in a particular transaction is highly dependent on, among others, the distance of steam being transported (and therefore the steam sales price in other market transactions may not be comparable), the Directors are of the view that the mid-range sale prices of steam published by Changshu NDRC which serve as the only government-prescribed reference sales price for and accessible to thermoelectricity enterprises in Changshu City only (being where Jiangsu Paper's power plant is located) are appropriate benchmarks given the low comparability of market transactions.

Taking into consideration of the above background and circumstances and the semi-annual price adjustments, the Directors consider the pricing terms to be on normal commercial terms and in the interest of the Shareholders as a whole.

Following the establishment of Jiangsu Paper, Jiangsu Chemical has not purchased any steam and electricity from independent third parties. Accordingly, no other similar transactions between Jiangsu Chemical and an independent steam supplier or an independent electricity supplier are available for comparison with the terms of the transactions contemplated under the 2024 Jiangsu Steam and Electricity Agreement.

As advised by the Management, Jiangsu Paper has not supplied steam and electricity to independent third parties after May 2014. As such, no other recent transactions between Jiangsu Paper and independent third parties are available for comparison purpose.

For our due diligence purpose, we noted that the unit price of steam charged by Jiangsu Paper to Jiangsu Chemical is determined with reference to (i) the guidance steam price suggested by the National Development and Reform Commission in Changshu City; (ii) actual supply costs of Jiangsu Paper (taking into account the costs incurred by Jiangsu Chemical in supplying the coal and provision of relevant facilities to transfer steam) plus a profit margin; and (iii) actual additional governmental regulatory and related charges for the three years ended 31 December 2023. We have obtained and reviewed 16 sets of invoices and monthly reconciliation forms between Jiangsu Paper and Jiangsu Chemical for the supply of steam during the three years ended 31 December 2023. Based on our review, we noted that the unit price of steam charged by Jiangsu Paper to Jiangsu Chemical had adhered to the pricing policy under the 2021 Jiangsu Steam and Electricity Agreement for the three years ended 31 December 2023.

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As provided by the Management, Jiangsu Chemical's total unit cost (excluding VAT) of low-pressure steam and medium-pressure steam was approximately RMB168.2 and RMB177.8 per ton, respectively, for the year ended 31 December 2023. We were advised by the Management that Jiangsu Chemical's total unit cost (excluding VAT) of low-pressure steam and medium-pressure steam includes the unit steam price of approximately RMB25.6 per ton and RMB25.6 per ton, respectively charged by Jiangsu Paper, the costs of coal for generating steam, and all other relevant costs borne by Jiangsu Chemical. We were advised by the Company that in the area where Jiangsu Chemical's factory is located, the National Development and Reform Commission in Changshu City has promulgated steam price guidance. The guidance steam price suggested by the National Development and Reform Commission in Changshu City ranged from approximately RMB197.3 to approximately RMB262.8 per ton (excluding VAT) during the three years ended 31 December 2023. As at the Latest Practicable Date, the guidance steam price suggested by the National Development and Reform Commission in Changshu City was approximately RMB214.2 per ton (excluding VAT). We noted that the total unit cost of each of low-pressure steam and medium-pressure steam of Jiangsu Chemical was less than the guidance steam price suggested by the National Development and Reform Commission in Changshu City. Accordingly, we consider the unit price of steam charged by Jiangsu Paper to Jiangsu Chemical was fair and reasonable.

We noted that the unit price of electricity charged by Jiangsu Paper to Jiangsu Chemical is determined with reference to (i) the relevant electricity price list issued by the State Grid Corporation of China of Jiangsu Province (國網江蘇省電力公司); (ii) actual supply costs of Jiangsu Paper (taking into account the costs incurred by Jiangsu Chemical in supplying the coal and provision of relevant facilities to transfer electricity) plus a profit margin; and (iii) actual additional governmental regulatory and related charges for the three years ended 31 December 2023. We have obtained and reviewed 16 sets of invoices and monthly reconciliation forms between Jiangsu Paper and Jiangsu Chemical for the supply of electricity during the three years ended 31 December 2023. Based on our review, we noted that the unit price of electricity charged by Jiangsu Paper to Jiangsu Chemical had adhered to the pricing policy under the 2021 Jiangsu Steam and Electricity Agreement for the three years ended 31 December 2023.

We were advised by the Management that the total unit cost of electricity of Jiangsu Chemical was RMB0.48 per kWh for the year ended 31 December 2023. As provided by the Management, Jiangsu Chemical's total unit cost of electricity includes the unit price of electricity of approximately RMB0.07 per kWh (excluding VAT) charged by Jiangsu Paper, the costs of coal and all other relevant costs borne by Jiangsu Chemical. We were advised by the Company that in the area where Jiangsu Chemical's factory is located, state electricity supply is priced according to the relevant electricity price list issued by the State Grid Corporation of China of Jiangsu Province. The prescribed price of electricity issued by the State Grid Corporation of China of Jiangsu Province was approximately RMB0.53 per kWh (excluding VAT)

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during the three years ended 31 December 2023 and as at the Latest Practicable Date. The total unit cost of electricity of Jiangsu Chemical is less than the prescribed price of electricity issued by the State Grid Corporation of China of Jiangsu Province. Accordingly, we consider that the unit price of electricity charged by Jiangsu Paper to Jiangsu Chemical was fair and reasonable.

On the above basis, we are of the view that the terms of the 2024 Jiangsu Steam and Electricity Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

3. 2024 Jiangsu Steam and Electricity Annual Caps

Set out below are the historical transaction amounts under the 2021 Jiangsu Steam and Electricity Agreement for the three years ended 31 December 2023 and the 2024 Jiangsu Steam and Electricity Annual Caps:

	For the year ended/ending 31 December					
	2021	2022	2023	2024	2025	2026
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
	(Actual)	(Actual)	(Actual)	(Cap)	(Cap)	(Cap)
Transaction amount	69	73	70	N/A	N/A	N/A
			(Note)			
Annual cap	80	80	80	120	130	130
Utilisation rate	86.3%	91.3%	87.5%	N/A	N/A	N/A

Note: The actual amount incurred is based on the unaudited financial results of the Company.

The actual amount incurred under the 2024 Jiangsu Steam and Electricity Agreement is approximately RMB12.3 million from 1 January 2024 up to and including the Latest Practicable Date. The transaction amount incurred under the 2024 Jiangsu Steam and Electricity Agreement from 1 January 2024 up to and including the Latest Practicable Date is within the de minimis threshold for connected transactions and exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

Review of historical transaction amounts

We noted that the utilisation rates of the annual caps under the 2021 Jiangsu Steam and Electricity Agreement were generally high for the three years ended 31 December 2023. The transaction amount remained relatively stable at approximately RMB69.0 million and RMB73.0 million for the two years ended 31 December 2022, respectively.

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It is noted that the transaction amount for the year ended 31 December 2023 slightly decrease to approximately RMB70.0 million as compared to approximately RMB73.0 million for the year ended 31 December 2022. As advised by the Management, this was mainly due to the partial suspension of a production line of chloromethane (“CMS”) products, which include methyl chloride, methylene chloride and chloroform, for maintenance purpose in 2023 and such production line has resumed production since late 2023.

Assessment of the 2024 Jiangsu Steam and Electricity Annual Caps

As disclosed in the Letter from the Board, the 2024 Jiangsu Steam and Electricity Annual Caps are determined with reference to the following factors:

- (i) the amount of historical transactions between Jiangsu Paper and Jiangsu Chemical;

The utilisation rate of the annual caps under the 2021 Jiangsu Steam and Electricity Agreement have been well over 80.0% for the past three years and in particular, it reached approximately 91.3% for the year of 2022. The relatively high utilisation rates were mainly due to the continuous growth in the production capacity of industrial chemical products of Jiangsu Chemical. As such, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards to allow further growth in the production capacity of Jiangsu Chemical.

- (ii) Jiangsu Paper’s own anticipated consumption requirements;
- (iii) the spare steam and electricity capacity of Jiangsu Paper available for Jiangsu Chemical’s requirements;

The Group requested the projected production capacity and consumption requirements from Jiangsu Paper and it is noted that Jiangsu Paper has spare steam and electricity capacity to supply to the Group after deducting its own anticipated consumption requirements, therefore the Directors consider that the upward adjustment of the annual caps is necessary in order to accommodate the Group’s increased demand for steam and electricity as explained below.

- (iv) the production plans and the related actual/estimated requirements for steam and electricity of Jiangsu Chemical and Jiangsu Paper for the period from 1 January 2024 up to and including 31 December 2026; and

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Based on the projected consumption requirements from various production facilities of Jiangsu Chemical, it is noted that the anticipated consumption requirements of the Group will first increase for the year ending 31 December 2024 and then remain relatively stable for the remaining term of the 2024 Jiangsu Steam and Electricity Agreement. The projection is due to the increased demand for steam and electricity from the expected commencement of one new production line of vinylene carbonate and chloro-ethylene carbonate and resumption of CMS production line of Jiangsu Chemical in the Jiangsu Province in 2024 and the relatively stable demand as it is expected that the factory sites would have utilised their full production capacity during the years of 2025 and 2026. The planned production capacity of the CMS production lines and all production lines of Jiangsu Chemical (including the aforesaid new production line expected to commence in 2024) for the year ending 31 December 2024 are expected to increase by approximately 24.3%, and 16.7%, respectively, as compared to the actual production volume for the year ended 31 December 2023, and are expected to remain relatively stable for the two years ending 31 December 2026.

- (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station for steam and electricity).

The Group estimated an annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads including 8% to 9% increment of labour costs of the Group during 2021 to 2023 and downward adjustments with reference to cost control on production overheads and turnover in labour forces as well as depreciation) for the unit price of steam and electricity services for the three years ending 31 December 2026 and that the LMP Group may incur additional governmental regulatory and related charges, including but not limited to carbon emission surcharges imposed by local government authorities, taking into account historical records for the three years ended 31 December 2023.

In assessing the fairness and reasonableness of the 2024 Jiangsu Steam and Electricity Annual Caps, we have discussed with the Management regarding the principal bases and assumptions adopted for determining the 2024 Jiangsu Steam and Electricity Annual Caps.

For our due diligence purpose, we have obtained from the Company and reviewed the projection table in respect of the estimated annual transaction amount for the purchase of steam and electricity by the Group from the LMP Group for the three years ending 31 December 2026 (the “**Jiangsu Steam and**

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Electricity Projection Table”). We noted from the Jiangsu Steam and Electricity Projection Table that such estimated annual transaction amount is derived from multiplying the estimated quantities of steam and electricity to be purchased from the LMP Group by the estimated selling prices of steam and electricity.

In determining the estimated quantities of the steam and electricity to be purchased from the LMP Group, the Group estimated the annual consumption volume of steam and electricity taking into account (i) its historical purchase quantities from the LMP Group for the three years ended 31 December 2023; (ii) the respective production capacities of manufacturing plants of the Group in Jiangsu Province; (iii) the demand for its chemical products and their resulting demand in steam and electricity and the expected portion to be purchased from the LMP Group; and (iv) the expected demand for the expected commencement of the production of new type of chemical products in July 2024.

In this respect, we have obtained and reviewed the Group’s historical purchase quantities of steam and electricity from the LMP Group for the three years ended 31 December 2023 and the latest production capacities of the electricity and steam generating facilities of the LMP Group. We noted the purchase quantities of medium-pressure steam were nil, approximately 100,000 tons and 77,000 tons for the three years ended 31 December 2023, respectively. As advised by the Management, the usage of medium-pressure steam was mainly driven by an expanded production line of CMS products since 2022, which required medium-pressure steam for production. And, the quantity of low-pressure steam and electricity of Jiangsu Chemical (including the production lines of CMS products, sodium hydroxide and hydrogen peroxide) remained relatively stable of approximately 500,000 tons and 710.0 million kWh, respectively, for each of three years ended 31 December 2023.

We have also obtained the management schedule of the total actual production volume of Jiangsu Chemical for the three years ended 31 December 2023. We noted the actual production volume of Jiangsu Chemical for the year ended 31 December 2022 recorded an increase of approximately 5.0% as compared to that for the year ended 31 December 2021 mainly due to the abovementioned expanded production line of CMS products that commenced in 2022, while the actual production volume of Jiangsu Chemical for the year ended 31 December 2023 slightly dropped to approximately 533,000 tons from 559,000 tons for the year ended 31 December 2022. We were advised by the Management that such decrease was mainly due to unexpected partial suspension of the abovementioned production line of CMS products for maintenance purpose during the year ended 31 December 2023.

We noted the planned production capacity of the production lines of CMS products and all production lines of Jiangsu Chemical for the year ending 31 December 2024 shall increase by approximately 24.3% and 16.7%, respectively,

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as compared to the actual production volume for the year ended 31 December 2023. As advised by the Management, such increases are mainly driven by a new production line of vinylene carbonate and chloro-ethylene carbonate which is expected to commence operation in July 2024 and the full resumption of the abovementioned production line of CMS products of Jiangsu Chemical for the year ending 31 December 2024, and relatively stable production during the two years ending 31 December 2026 as it is expected that the factory sites would have utilised their full production capacity.

Further, from the Jiangsu Steam and Electricity Projection Table, we noted that the estimated purchase quantity of electricity and steam (including both low-pressure and medium-pressure steam) of Jiangsu Chemical for the year ending 31 December 2024 (including the production lines of CMS products, sodium hydroxide, hydrogen peroxide and vinylene carbonate and chloro-ethylene carbonate) of approximately 810.3 million kWh and 950,000 tons, respectively, represent increased amounts of electricity and steam of approximately 100.3 million kWh (i.e. 14.1%) and 373,000 tons (i.e. 64.6%), respectively, as compared to the actual purchase quantity of electricity and steam of Jiangsu Chemical of approximately 710.0 million kWh and 577,000 tons, respectively, for the year ended 31 December 2023 (including the production lines of CMS products, sodium hydroxide and hydrogen peroxide).

Such expected increase in steam purchase is mainly driven by the estimated purchase quantity of low-pressure steam and medium-pressure steam for the production lines of CMS products of approximately 461,000 tons and 368,000 tons, respectively for the year ending 31 December 2024 as compared to that of approximately 405,000 tons and 77,000 tons for the year ended 31 December 2023 based on the assumption that the production lines of CMS products will be fully utilised in 2024. In particular, the medium-pressure steam is primarily used by the abovementioned production line of CMS products, which experienced unexpected partial suspension in 2023, hence the historical purchase quantities of medium-pressure steam were significantly low as compared to the estimated purchase quantities of medium-pressure steam for the year ending 31 December 2024.

On the other hand, the expected increase in electricity is mainly due to the estimated purchase quantity of electricity for the production lines of (i) vinylene carbonate and chloro-ethylene carbonate; and (ii) CMS products, of approximately 40.0 million kWh and 105.8 million kWh, respectively, for the year ending 31 December 2024 as compared to that of nil and approximately 83.9 million kWh, respectively, for the year ended 31 December 2023. As advised by the Management, the operation of all production lines of Jiangxi Chemical (including the production lines of CMS products, sodium hydroxide, hydrogen peroxide and vinylene carbonate and chloro-ethylene carbonate) significantly rely on electricity to operate. As mentioned above, the new production line of

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vinylene carbonate and chloro-ethylene carbonate is expected to commence operation in July 2024. Also, a production line of CMS products experienced an unexpected partial suspension, which led a lower amount of purchase quantities of electricity as compared to the expected amount of purchase quantities of electricity for the year ended 31 December 2023. As advised by the Management, as the suspended production line has resumed operation in late 2023 and all of the production lines of Jiangsu Chemical (including the new production line of vinylene carbonate and chloro-ethylene carbonate to be commenced in July 2024) are assumed to be fully utilised in the Jiangsu Steam and Electricity Projection Table, the estimated purchase quantity of electricity for the year ending 31 December 2024 amounts to approximately 810.3 million kWh.

We further noted that the estimated purchase quantities of steam and electricity of the production lines of sodium hydroxide and hydrogen peroxide for the year ended 31 December 2024 remain relatively stable as compared to the historical purchase quantities of such products for the year ended 31 December 2023.

For the year ending 31 December 2025, the Management expects purchase quantity of steam and electricity of Jiangsu Chemical will amount to approximately 982,000 tons and 837.1 million kWh, representing increases of approximately 3.3% and 3.3%, respectively, equivalent to increased quantity of steam and electricity of approximately 32,000 tons and 26.8 million kWh, as compared to the expected purchase quantity of steam and electricity of Jiangsu Chemical for the year ending 31 December 2024. We noted the estimated purchase quantities of steam and electricity for the production line of vinylene carbonate and chloro-ethylene carbonate amount to approximately 30,000 tons and 65.0 million kWh for the year ending 31 December 2025 as compared to that of approximately 16,000 tons and 40.0 million kWh for the year ending 31 December 2024. We have reviewed the management schedule of the production capacity projection for the three years ending 31 December 2026, and noted such increases in expected purchase quantities of steam and electricity are mainly driven by expected increase in production capacity of vinylene carbonate and chloro-ethylene carbonate products from approximately 2,500 tons/year for the year ending 31 December 2024 to approximately 5,000 tons/year for the year ending 31 December 2025. We further noted that the estimated purchase quantities of steam and electricity of the production lines of sodium hydroxide and hydrogen peroxide for each of the two years ending 31 December 2026 remain relatively stable as compared to the estimated purchase quantities of such products for the year ending 31 December 2024. We also noted that the estimated purchase quantities of steam and electricity of Jiangsu Chemical for the year ending 31 December 2026 shall remain the same as that for the year ending 31 December 2025 because the Management assumed relatively stable production volume of chemical products during 2026.

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Further, we have reviewed the historical and estimated production capacity of the electricity and steam generating facilities of the LMP Group in Jiangsu Province for the three years ended 31 December 2023 and the three years ending 31 December 2026, respectively. Based on the review of the Jiangsu Steam and Electricity Projection Table, we noted that the expected demand for low-pressure steam by Jiangsu Chemical is expected to be approximately 36.3%, 40.5% and 44.2% of Jiangsu Paper's expected spare capacity of low-pressure steam for the three years ending 31 December 2026, respectively. The expected demand for medium-pressure steam by Jiangsu Chemical is expected to be approximately 82.4%, 86.6% and 91.5% of Jiangsu Paper's expected spare capacity of medium-pressure steam for the three years ending 31 December 2026, respectively. The expected demand for electricity by Jiangsu Chemical is expected to be around 87.7%, 88.1% and 88.1% of Jiangsu Paper's expected spare capacity of electricity for the three years ending 31 December 2026, respectively. Based on the above, the Directors consider, and we concur, that the LMP Group would have ample capacity to handle the 2024 Jiangsu Steam and Electricity Transactions.

According to the data from the National Bureau of Statistics of China, the growth rate of added value of major industrial categories* (工業分大類行業增加值增長速度) for the chemical raw materials and chemical products manufacturing industry in China was approximately 9.6% for the year ended 31 December 2023. We also noted that the growth rate of major industrial categories for the chemical raw materials and chemical products manufacturing industry in China since June 2023 were higher than those in the corresponding periods in 2022. In particular, the year-on-year growth rates of production volume of chemical raw materials and chemical products manufacturing industry in China for each of the ten months ended 31 December 2023 were all above 9%.

With respect to the estimated purchasing prices of the steam and electricity (including the governmental regulatory and related charges), the Group determined the estimated purchasing prices with reference to (i) the historical purchasing price ranges of the steam and electricity (including the governmental regulatory and related charges) for the three years ended 31 December 2023; (ii) the estimated annual inflation rate for the three years ending 31 December 2026; and (iii) the historical increment of production overhead for the three years ended 31 December 2023. In this respect, we have obtained and reviewed a table summarising the historical purchasing price ranges of the steam and electricity for the three years ended 31 December 2023 and noted that the estimated purchasing prices adopted in the Jiangsu Steam and Electricity Projection Table are within the relevant price ranges with the assumption of estimated annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads, including 8% to 9% growth in labour costs of the Group during 2021 to 2023) for the unit price of steam and electricity services for the three years ending 31 December 2026. In addition, according to the statistics set out in the October 2023 edition of the International Monetary Fund's World Economic Outlook Database, the estimated growth rate of the consumer price

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index of the PRC in 2024 is approximately 0.9% as compared to 2023, and approximately 1.9% in 2025 as compared to 2024. Further, according to the data from the National Bureau of Statistics of China, the average annual salary of employees in urban private units in electricity, gas, and water production and supply industries was approximately RMB54,268, RMB59,271 and RMB61,870, respectively, for each of three years ended 31 December 2022, representing a compound annual growth rate of approximately 6.8%. Based on the above, we are of the view that the assumed price growth rate of 3% to 5% is fair and reasonable. Notwithstanding the estimated growth rates in purchasing prices, the Company took a prudent approach to set the Jiangsu Steam and Electricity Annual Caps for the year ending 31 December 2026 to be the same as that for the year ending 31 December 2025. Taking into account that estimated annual inflation rate of 3% to 5% is in line with the average of (i) the estimated growth rate of the consumer price index of the PRC; and (ii) compound annual growth rate of the average annual salary of employees in urban private units in electricity, gas, and water production and supply industries, we are of the view that estimated annual inflation rate of 3% to 5% is fair and reasonable.

Meanwhile, the carbon emission charges order implemented by the PRC government has led to additional charges to Jiangsu Chemical since the third quarter of 2023. In this regard, we noted that the “Administration Measures for the Voluntary Greenhouse Gas Emission Reduction Transaction (Trial Version)” (《溫室氣體自願減排交易管理辦法(試行)》) was jointly promulgated by the Ministry of Ecology and Environment and the State Administration for Market Regulation in 19 October 2023, which (a) promoted the carbon goals set up by the PRC government, which including but not limited to reduce greenhouse gas emissions generated by human activities and achieve carbon neutrality goal; and (b) emphasised the established of a “greenhouse gas voluntary emission reduction trading market” rather than merely supplementing the quota market.

Based on the above, we are of the view that the 2024 Jiangsu Steam and Electricity Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

III. 2024 Jiangxi Steam and Electricity Agreement

1. Reasons for and benefits of the 2024 Jiangxi Steam and Electricity Transactions

As disclosed in Letter from the Board, the 2024 Jiangxi Steam and Electricity Agreement was negotiated and agreed on an arms’ length basis between the parties and based on normal commercial terms. Both the LMP Group and the Group have production plants located in Jiangxi Province which require electricity and steam for manufacturing their paper and chemical products respectively. To facilitate the production process in Jiangxi Province, the Group had constructed its own power station in the province to supply the required electricity and steam for its production plants located in Jiangxi Province.

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The proximity of the power station to the relevant operations mean that both the Group and the LMP Group would be able to obtain electricity and steam at a lower price than from other third-party suppliers. As the steam supplies require control on pressure and temperature and supporting infrastructure for transportation, it is also impracticable to source steam except from suppliers in close proximity taking into account the high costs and difficulty of transporting steam including the laying of supply infrastructure and related costs and time which similarly applies to electricity. Supplies of electricity from independent external suppliers (including the State Grid Corporation of China) will not be as stable as compared to supplies from the power station of the Company given the closer proximity and the tailored arrangement between the two groups which allows the parties to schedule their manufacturing operations on a timely basis whereas state suppliers are not able to match the LMP Group's tailored requirement for extra stability due to much wider customer base. As the production plants of the Group and the LMP Group are operated on a twenty-four-hour basis, any power shortage or power failure would adversely affect the production lines and reduce the efficiency of manufacturing. Considering the satisfactory track record, the tailored arrangement and effective communication channels between the two groups, the 2024 Jiangxi Steam and Electricity Agreement will therefore minimise the risk of production interruption by providing a consistent and stable supply of steam and electricity to the production plants of the LMP Group located in Jiangxi Province.

Further, this arrangement will also help the Company to improve the utilisation of its power station as the supply of steam and electricity under the 2024 Jiangxi Steam and Electricity Agreement represents surplus steam and electricity generated and produced at its power station of which it will be virtually impracticable for the Group to supply to third party customers in similar scale due to the location of power station. The overall operation efficiency of its power station in Jiangxi Province will be enhanced as a result of the economies of scale mainly attributable to the expected decrease in overheads, investment and financing costs of the power station with the increased production volume.

Based on our discussion with the Management, we understand that the Group has been supplying steam and electricity to the LMP Group for the production of paper products in Jiangxi Province for over 11 years and thereby has established and maintained a close business relationship with the LMP Group.

Having considered the above reasons and benefits, we concur with the Directors' view that the 2024 Jiangxi Steam and Electricity Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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2. *Principal terms of the 2024 Jiangxi Steam and Electricity Agreement*

Date:	29 December 2023
Parties:	(i) Jiangxi Chemical (as supplier) (ii) LMP (as purchaser)
Nature of Transaction:	Jiangxi Chemical will generate and supply steam and electricity to LMP (or any other member of the LMP Group). The coal for generating the steam and electricity shall be supplied by the LMP Group to Jiangxi Chemical in advance. The quantity of coal to be supplied by the LMP Group would depend on the monthly actual consumption of the steam and electricity of the LMP Group. The LMP Group will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. The LMP Group will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.
Term of Agreement:	Three years commencing from 1 January 2024 up to and including 31 December 2026.
Payment:	Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by the LMP Group (using its internal financial resources) within 14 days after the end of each month based on actual consumption amount of steam and electricity but subject to the limits of the 2024 Jiangxi Steam and Electricity Annual Caps.

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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 generally in line with those available from the state-owned power grid corporations and that the credit period is within the range of normal credit terms granted to the Group's customers (being 7 days to 60 days upon delivery) for the financial year ended 31 December 2022.

For our due diligence purpose, we have obtained and reviewed the sample electricity bills charged to the Group by the state-owned power grid corporations during the three years ended 31 December 2023 and we noted that the credit period as stated in such electricity bills ranged from 18 days to 28 days. Further, we have reviewed the Annual Report 2022 and we noted that the range of normal credit period granted to the Group's customers is from 7 days to 60 days upon delivery. Taking into account that the credit period of the 2024 Jiangxi Steam and Electricity Agreement is in line of those available of the state-owned power grid corporations and the Group's customers, we are of the view that the payment term for the 2024 Jiangxi Steam and Electricity Agreement is fair and reasonable.

Pricing Policy:

The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangxi Chemical, plus a margin of not more than 25%. The upper limit of the margin is determined with reference to the reference prices prescribed or charged by the government authorities or state suppliers. This means that whilst the margin fluctuates depending on certain cost components, the overall margin will still be lower than that compared to large scale governmental authorities or state grid suppliers, given the relatively lower cost base for a much smaller scale of production in this case compared to state suppliers, whilst maintaining a relatively stable overall price and income to Jiangxi Chemical.

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LMP shall reimburse Jiangxi Chemical all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangxi Chemical (which shall be based on actual amounts incurred).

The 2024 Jiangxi Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of the Company and LMP against, among others, those available from government authorities such as the Changshu NDRC and the State Grid Corporation of China (being a state-owned electricity utility company) in the Jiangxi province to determine the reasonableness and competitiveness of pricing of steam and electricity, respectively.

The Directors consider that it is impractical for Jiangxi Chemical to supply surplus steam and electricity to other buyers except to the LMP Group taking into account the fact that there are no independent third party buyers which could purchase steam from Jiangxi Chemical in close proximity and that supplying LMP on an ongoing basis would mean that additional unused steam and electricity would not go wasted and would generate steady income to Jiangxi Chemical whilst creating synergies with LMP (who is also the Company's supplier) generally.

As the price of steam supplies in a particular transaction is highly dependent on, among others, the distance of steam being transported (and therefore the steam sales price in other market transactions may not be comparable) and also that no reference price has been prescribed by the government authorities in Ruichang City of Jiangxi province (where Jiangxi Chemical's power plant is located), the Directors are of the view that the mid-range sale prices of steam published by Changshu NDRC are appropriate benchmarks given the low comparability of market transactions and the similar unit cost of production for power generation in Jiangsu and Jiangxi provinces.

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Taking into consideration of the above background and circumstances and the semi-annual price adjustment mechanism, the Directors consider the pricing terms to be on normal commercial terms and in the interest of the Shareholders as a whole.

Following the establishment of Jiangxi Chemical, the LMP Group has not purchased any steam and electricity from independent third parties. Accordingly, no other similar transactions between the LMP Group and an independent steam supplier or an independent electricity supplier are available for comparison with the terms of the transactions contemplated under the 2024 Jiangxi Steam and Electricity Agreement.

As advised by the management of the Group, Jiangxi Chemical has not supplied steam and electricity to independent third parties since its establishment in 2012. As such, no other latest transactions between Jiangxi Chemical and independent third parties are available for comparison purpose.

For our due diligence purpose, we noted that the unit price of steam charged by Jiangxi Chemical to the LMP Group is determined with reference to (i) the guidance steam price suggested by the National Development and Reform Commission in Changshu City; (ii) actual supply costs of Jiangxi Chemical (taking into account the costs incurred by the LMP Group in supplying the coal and provision of relevant facilities to transfer steam) plus a profit margin; and (iii) actual additional governmental regulatory and related charges for the three years ended 31 December 2023. We have obtained and reviewed 16 sets of invoices and monthly reconciliation forms between Jiangxi Chemical and the LMP Group for the supply of steam for the three years ended 31 December 2023. Based on our review, we noted that the unit price of steam charged by Jiangxi Chemical to the LMP Group had adhered to the pricing policy under the 2021 Jiangxi Steam and Electricity Agreement for the three years ended 31 December 2023.

As provided by the Management, the total unit cost (excluding VAT) of low-pressure steam and medium-pressure steam of the LMP Group's production facilities in Jiangxi Province ("**LMP Jiangxi Plants**") was approximately RMB170.3 and RMB185.6 per ton, respectively, for the year ended 31 December 2023. We were advised by the Management that the LMP Jiangxi Plants' total unit cost (excluding VAT) of low-pressure steam and medium-pressure steam includes the unit steam price of approximately RMB25.6 per ton and RMB25.6 per ton, respectively charged by Jiangxi Chemical, the costs of coal for generating steam, and all other relevant costs borne by the LMP Jiangxi Plants. We were advised by the Company that in the area where Jiangxi Chemical's factory is located, guidance steam prices are suggested by the National Development and Reform Commission in Changshu City. The guidance low-pressure steam unit price and medium-pressure steam unit price suggested by the National Development and Reform Commission in Changshu City were approximately

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RMB214.2 per ton, respectively for the year ended 31 December 2023 and as at the Latest Practicable Date. Despite the total unit cost of low-pressure steam and medium-pressure steam of the LMP Jiangxi Plants were less than the guidance steam prices suggested by the National Development and Reform Commission in Changshu City for the year ended 31 December 2023, having considered that (a) supplying steam to the LMP Group on an ongoing basis would mean that additional unused steam would not go wasted and would generate steady income to Jiangxi Chemical; (b) it is commercially impractical for Jiangxi Chemical to supply steam to other buyers except to the LMP Group based on the fact there are no independent third party buyers available in proximity; (c) the unit prices of steam charged by Jiangxi Chemical include a profit margin of not more than 25% pursuant to the 2024 Jiangxi Steam and Electricity Agreement; (d) reciprocally the unit prices of steam charged by Jiangsu Paper also include a profit margin of not more than 25% pursuant to the 2024 Jiangsu Steam and Electricity Agreement; and (e) the Group's profit before taxation margin were approximately 31.1%, 23.8% and 6.5% for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively, the average of which of approximately 20.5% was lower than the profit margin of not more than 25% under the 2024 Jiangxi Steam and Electricity Agreement, we consider the unit prices of steam charged by Jiangxi Chemical to the LMP Group and the relevant pricing policy (including the profit margin of not more than 25%) are fair and reasonable.

We noted that the unit price of electricity charged by Jiangxi Chemical to the LMP Group is determined with reference to (i) the relevant electricity price list issued by the State Grid Corporation of China of Jiangxi Province (國網江西省電力公司); (ii) actual supply costs of Jiangxi Chemical (taking into account the costs incurred by the LMP Group in supplying the coal and provision of relevant facilities to transfer electricity) plus a profit margin; and (iii) actual additional governmental regulatory and related charges for the three years ended 31 December 2023. We have obtained and reviewed 16 sets of invoices and monthly reconciliation forms between Jiangxi Chemical and the LMP Group for the supply of electricity for the three years ended 31 December 2023. Based on our review, we noted that the unit price of electricity charged by Jiangxi Chemical to the LMP Group had adhered to the pricing policy under the 2021 Jiangxi Steam and Electricity Agreement for the three years ended 31 December 2023.

We were advised by the Management that the LMP Jiangxi Plants' total unit cost (excluding VAT) of electricity was RMB0.49 per kWh for the year ended 31 December 2023. As provided by the Management, the LMP Jiangxi Plants' total unit cost (excluding VAT) of electricity includes the unit electricity price of approximately RMB0.07 per kWh charged by Jiangxi Chemical, the costs of coal and all other relevant costs borne by the LMP Jiangxi Plants. We were advised by the Company that in the area where Jiangxi Chemical's factory is located, state electricity supply is priced according to the relevant electricity price list issued by the State Grid Corporation of China of Jiangxi Province. The prescribed price of electricity issued by the State Grid Corporation of China of Jiangxi Province was RMB0.65 per kWh for

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the year ended 31 December 2023 and as at Latest Practicable date. Despite the total unit cost of electricity of the LMP Jiangxi Plants is less than the prescribed prices of electricity issued by the State Grid Corporation of China of Jiangxi Province for the year ended 31 December 2023, having considered that (a) supplying electricity to the LMP Group on an ongoing basis would mean that additional unused electricity would not go wasted and would generate steady income to Jiangxi Chemical; (b) it is commercially impractical for Jiangxi Chemical to supply electricity to other buyers except to the LMP Group based on the fact there are no independent third party buyers available in proximity; (c) the unit price of electricity charged by Jiangxi Chemical includes a profit margin of not more than 25% pursuant to the 2024 Jiangxi Steam and Electricity Agreement; (d) reciprocally the unit prices of electricity charged by Jiangsu Paper also include a profit margin of not more than 25% pursuant to the 2024 Jiangsu Steam and Electricity Agreement; and (e) the Group's profit before taxation margin were approximately 31.1%, 23.8% and 6.5% for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively, the average of which of approximately 20.5% was lower than the profit margin of not more than 25% under the 2024 Jiangxi Steam and Electricity Agreement, we consider that the unit price of electricity charged by Jiangxi Chemical to the LMP Group and the relevant pricing policy (including the profit margin of not more than 25%) are fair and reasonable.

On the above basis, we are of the view that the terms of the 2024 Jiangxi Steam and Electricity Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

3. 2024 Jiangxi Steam and Electricity Annual Caps

Set out below are the historical transaction amounts under the 2021 Jiangxi Steam and Electricity Agreement for the three years ended 31 December 2023 and the 2024 Jiangxi Steam and Electricity Annual Caps:

	For the year ended/ending 31 December					
	2021	2022	2023	2024	2025	2026
	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Cap)	<i>RMB'million</i> (Cap)	<i>RMB'million</i> (Cap)
Transaction amount	72	60	62 <i>(Note)</i>	N/A	N/A	N/A
Annual cap	100	105	110	130	135	135
Utilisation rate	72.0%	57.1%	56.4%	N/A	N/A	N/A

Note: The actual amount incurred is based on the unaudited financial results of the Company.

The actual amount incurred under the 2024 Jiangxi Steam and Electricity Agreement is approximately RMB11.6 million from 1 January 2024 up to and

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including the Latest Practicable Date. The transaction amount incurred under the 2024 Jiangxi Steam and Electricity Agreement from 1 January 2024 up to and including the Latest Practicable Date is within the de minimis threshold for connected transactions and exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

Review of historical transaction amounts

We noted that the transaction amount decreased from approximately RMB72.0 million for the year ended 31 December 2021 to approximately RMB60.0 million for the year ended 31 December 2022. The transaction amount for the year ended 31 December 2023 slightly increase to approximately RMB62.0 million as compared to that of approximately RMB60.0 million for the year ended 31 December 2022. As advised by the Management, the relatively low transaction amounts for each of the two years ended 31 December 2023 as compared to that for the year ended 31 December 2021 were mainly due to the partial suspension of certain LMP Jiangxi Plants in order to upgrade its manufacturing capabilities during the each of two years ended 31 December 2023. As advised by the Management, such suspension of the LMP Jiangxi Plants resulted in estimated decrease usage of steam and electricity of approximately 500,000 tons and 14.1 million kWh, respectively, for the year ended 31 December 2023. The relevant LMP Jiangxi Plants have resumed production since late 2023.

Assessment of the 2024 Jiangxi Steam and Electricity Annual Caps

As disclosed in the Letter from the Board, the 2024 Jiangxi Steam and Electricity Annual Caps are determined with reference to following factors:

- (i) the amount of historical transactions between the LMP Group and Jiangxi Chemical as set out above;

The utilisation rate of the annual caps under the 2021 Jiangxi Steam and Electricity Agreement for the three years ended 31 December 2023 were 72.0%, 57.1% and 56.4%, respectively. The relatively lower utilisation rates for the two years ended 31 December 2023 were due to the suspension of certain production facilities of the LMP Group in order to upgrade its manufacturing capabilities during the period. As disclosed in the LMP Annual Report 2022 and the interim report of LMP for 6M2023 (the “**LMP Interim Report 2023**”), the LMP Group planned to commence production of its new pulp production lines in Jiangxi province in the second half of 2023 and the planned production capacity to be added is 300,000 tons of pulp. Given the resumption of the upgraded production facilities and these planned expansion of production capacity of the LMP Group during the term of 2024 Jiangxi

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Steam and Electricity Agreement, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards to accommodate the LMP Group's increased demand for steam and electricity.

- (ii) the production plans and the related actual/estimated requirements for steam and electricity of the LMP Group and Jiangxi Chemical for the period from 1 January 2024 up to and including 31 December 2026;

The Group requested the projected consumption requirements from various production facilities of the LMP Group and it is noted that the anticipated consumption requirements of the LMP Group will first increase for the year ending 31 December 2024 and then remain relatively stable for the remaining term of the 2024 Jiangxi Steam and Electricity Agreement. The projection is due to the increased demand for steam and electricity from the abovementioned planned expansion of production capacity of the LMP Group in 2024 and the relatively stable demand as it is expected that the factory sites would have utilised their full production capacity during the years of 2025 and 2026.

- (iii) Jiangxi Chemical's own anticipated consumption requirements;
- (iv) the spare steam and electricity capacity of Jiangxi Chemical available for the LMP Group's requirements; and

Considering the expected trend of the LMP Group's consumption requirements for the term of the 2024 Jiangxi Steam and Electricity Agreement, the Group reviewed its own production capacity and is of the view that there is room for additional sales to be made to the LMP Group after deducting Jiangxi Chemical's own anticipated consumption requirements. Therefore, the Directors consider that the upward adjustment of the annual caps is necessary in order to accommodate the LMP Group's increased demand for steam and electricity.

- (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station of steam and electricity).

The Group estimated an annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads, including 8% to 9% increment of labour costs of the Group during 2021 to 2023 and adjusted downwards with reference to cost control on production overheads and turnover in labour forces) for the unit price of steam and electricity services for the three years ending 31 December 2026

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and that the Group may incur additional governmental regulatory and related charges, including but not limited to carbon emission surcharges imposed by local government authorities, taking into account historical records for the three years ended 31 December 2023.

In assessing the fairness and reasonableness of the 2024 Jiangxi Steam and Electricity Annual Caps, we have discussed with the Management regarding the principal bases and assumptions adopted for determining the 2024 Jiangxi Steam and Electricity Annual Caps. We were given to understand that the LMP Group's demand for steam and electricity is expected to increase for the three years ending 31 December 2026 as compared with previous years because of the expected increase in the production volume and utilisation rate of the production facilities of the LMP Group.

For our due diligence purpose, we have obtained from the Company and reviewed the projection table in respect of the estimated annual transaction amount for the purchase of steam and electricity by the LMP Group from Jiangxi Chemical for the three years ending 31 December 2026 (the “**Jiangxi Steam and Electricity Projection Table**”). We noted from the Jiangxi Steam and Electricity Projection Table that such estimated annual transaction amount is derived from multiplying the estimated quantities of steam and electricity to be supplied by Jiangxi Chemical to the LMP Group by the estimated selling prices of steam and electricity.

In determining the estimated annual consumption volume of the steam and electricity to be supplied to the LMP Group, the LMP Group has taken into account (i) its historical purchase quantities from Jiangxi Chemical for the three years ended 31 December 2023; (ii) the planned expansion of the production capacities of manufacturing plants of the LMP Group in Jiangxi Province; and (iii) the stable demand for its paper products and their resulting demand in steam and electricity for production of such paper products and the expected portion to be purchased from Jiangxi Chemical.

In this respect, we have obtained and reviewed the Group's historical supply quantities of steam and electricity to the LMP Group for the three years ended 31 December 2023 and the latest production capacities of the LMP Jiangxi Plants. We noted that quantities of electricity supplied to the LMP Group decreased to approximately 430.7 million kWh for the year ended 31 December 2022 from that of approximately 523.4 million kWh for the year ended 31 December 2021. And, the quantities of electricity supplied to the LMP Group further decreased to 384.1 million kWh for the year ended 31 December 2023, representing a decrease of approximately 10.8%, as compared to that of the year ended 31 December 2022. Such decreases were mainly due to the abovementioned partial suspension of certain LMP Jiangxi Plants in order to upgrade its manufacturing capabilities during the year ended 31 December 2023. Similarly, we noted that the quantities

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of steam supplied to the LMP Group were approximately 1.4 million, 1.2 million and 1.1 million, respectively, for the three years ended 31 December 2023, which was in line with the trend of the quantities of electricity supplied to the LMP Group for the corresponding period. As advised by the Management, the abovementioned partial suspension of certain LMP Jiangxi Plants had led to decreases in the quantities of steam and electricity supplied to the LMP Group of approximately 40.5% and 33.8%, respectively, as compared to the planned quantities of steam and electricity supplied to the LMP Group for the year ended 31 December 2023.

As advised by the Management, the Jiangxi Steam and Electricity Projection Table was based on the assumption that all production lines of the LMP Jiangxi Plants will operate in full capacity and a new production line in the LMP Jiangxi Plants will commence operation in the third quarter of 2024. We noted that the estimated purchase quantity of steam and electricity of LMP Jiangxi Plants (including the new production line expected to be commenced in the third quarter of 2024) for the year ending 31 December 2024 amount to approximately 2.1 million tons and 628.0 million kWh, respectively, as compared to the actual purchase quantity of steam and electricity of LMP Jiangxi Plants of approximately 1.1 million tons and 384.1 million kWh, respectively, for the year ended 31 December 2023. As advised by the Management, the LMP Jiangxi Plants shall operate in full capacity in 2024, and thus the relatively low transaction amounts of steam and electricity in 2023 mainly caused by the unexpected suspension of the LMP Jiangxi Plants shall be considered as temporary irregularity. We also obtained the original expected purchase quantity of steam and electricity of the LMP Jiangxi Plants for the year ended 31 December 2023, under the assumption that the LMP Jiangxi Plants were in fully operation in 2023, which were approximately 2.0 million tons and 607.8 million kWh, respectively. As advised by the Management, the increase between the expected purchase quantity of steam and electricity of LMP Jiangxi Plants in 2023 and 2024 was mainly driven by the new production line of the LMP Jiangxi Plants that is expected to commence operation in the third quarter of 2024. We noted that the estimated quantities of steam and electricity for the new production line of the LMP Jiangxi Plants are approximately 72,000 tons and 20.2 million kWh, respectively, for the year ending 31 December 2024.

In addition, the LMP Group expected such new production line will be in full operation during the two years ending 31 December 2026 and other existing production lines will maintain stable demand of steam and electricity for production in 2025 and 2026. We noted that the estimated quantities of steam and electricity for the new production line of the LMP Jiangxi Plants commencing operation in 2024 are approximately 200,000 tons and 57.2 million kWh, respectively, for each of two years ending 31 December 2026, representing approximately 9.1% and 8.6%, respectively, of the total estimated quantities of steam and electricity to be supplied by Jiangxi Chemical to the LMP Group for

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each of the two years ending 31 December 2026. As such, the total estimated quantities of steam and electricity required by the LMP Group amount to approximately of 2.2 million tons and 665.0 million kWh, respectively, for the year ending 31 December 2025 as a result of the new production line of the LMP Jiangxi Plants expecting to operate full year in 2025. The total estimated quantities of steam and electricity required by the LMP Group shall remain the same for the year ending 31 December 2026.

According to the data from the National Bureau of Statistics of China, the growth rate of added value of major industrial categories* (工業分大類行業增加值增長速度) for paper and paper products industry in China was approximately 3.1% for the year ended 31 December 2023. On the other hand, the total production volume of machine-made paper and paperboard in China amounted to approximately 144.1 million tons for the year ended 31 December 2023, representing a year-on-year increase of approximately 14.5%. We also noted that the monthly production volume of machine-made paper and paperboard in China since August 2023 were higher than those in the corresponding periods in 2022. In particular, the year-on-year growth rates of production volume of machine-made paper and paperboard in China for each month of the five months ended 31 December 2023 were all above 10%.

Further, we have reviewed the historical and estimated production capacity of the electricity and steam generating facilities of Jiangxi Chemical in Jiangxi Province for the three years ended 31 December 2023 and the three years ending 31 December 2026, respectively. Based on the review of the Jiangxi Steam and Electricity Projection Table, we noted that the expected demand for steam by the LMP Group is expected to be 33.8%, 35.9% and 35.9% of the total production capacity of Jiangxi Chemical for steam for the three years ending 31 December 2026, respectively. The expected demand for electricity by the LMP Group is expected to be 30.1%, 31.9% and 31.9% of the total production capacity of Jiangxi Chemical for electricity for the three years ending 31 December 2026, respectively. Based on the above, the Directors consider, and we concur, that Jiangxi Chemical would have ample capacity to handle the 2024 Jiangxi Steam and Electricity Transactions.

With respect to the estimated selling prices of the steam and electricity (including the governmental regulatory and related charges), the Company has made reference to (i) the historical selling price ranges of the steam and electricity (including the governmental regulatory and related charges) for the three years ended 31 December 2023; (ii) the estimated annual inflation rate for the three years ending 31 December 2026; and (iii) the historical increment of production overhead for the three years ended 31 December 2023. In this respect, we have obtained and reviewed a table summarising the historical selling price ranges of the steam and electricity for the three years ended 31 December 2023 and noted that the estimated selling prices adopted in the Jiangxi Steam and

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Electricity Projection Table are within the relevant historical price ranges with the assumption of estimated annual inflation rate of 3% to 5% (taking into account the historical increment of production overheads, including 8% to 9% growth in labour costs of the Group during 2021 to 2023) for the three years ending 31 December 2026. In addition, according to the statistics set out in the October 2023 edition of the International Monetary Fund's World Economic Outlook Database, the estimated growth rate of the consumer price index of the PRC in 2024 is approximately 0.9% as compared to 2023, and approximately 1.9% in 2025 as compared to 2024. Further, according to the data from the National Bureau of Statistics of China, the average annual salary of employees in urban private units in electricity, gas, and water production and supply industries was approximately RMB54,268, RMB59,271 and RMB61,870, respectively, for each of three years ended 31 December 2022, representing a compound annual growth rate of approximately 6.8%. Based on the above, we are of the view that the assumed price growth rate of 3% to 5% is fair and reasonable. Notwithstanding the estimated growth rates in purchasing prices, the Company took a prudent approach to set the Jiangxi Steam and Electricity Annual Caps for the year ending 31 December 2026 to be the same as that for the year ending 31 December 2025. Taking into account that estimated annual inflation rate of 3% to 5% is in line with the average of (i) the estimated growth rate of the consumer price index of the PRC; and (ii) compound annual growth rate of the average annual salary of employees in urban private units in electricity, gas, and water production and supply industries, we are of the view that estimated annual inflation rate of 3% to 5% is fair and reasonable.

Meanwhile, the carbon emission charges order implemented by the PRC government has led to additional charges to the LMP Group since the third quarter of 2023. In this regard, we noted that the "Administration Measures for the Voluntary Greenhouse Gas Emission Reduction Transaction (Trial Version)" (《溫室氣體自願減排交易管理辦法(試行)》) was jointly promulgated by the Ministry of Ecology and Environment and the State Administration for Market Regulation in 19 October 2023, which (a) promoted the carbon goals set up by the PRC government, which including but not limited to reduce greenhouse gas emissions generated by human activities and achieve carbon neutrality goal; and (b) emphasised the established of a "greenhouse gas voluntary emission reduction trading market" rather than merely supplementing the quota market.

Based on the above, we are of the view that the 2024 Jiangxi Steam and Electricity Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

IV. 2024 Chemicals Purchase Agreement

1. Reasons for and benefits of the 2024 Chemicals Purchase Transactions

As disclosed in Letter from the Board, the 2024 Chemicals Purchase Agreement will secure a long-term and steady supply of industrial chemical products to ensure fulfilment of the production needs of the LMP Group. The sale of industrial chemical products provides a long-term and steady income flow for the Group and creates synergy between both groups.

Further, the close proximity of both the LMP Group's and the Group's production facilities in some locations (for example, Jiangsu and Jiangxi Provinces) also reduces transportation costs and provides a convenient and efficient platform for the LMP Group to purchase and the Group to sell industrial chemical products.

Based on our discussion with the Management, we understand that the Group has been supplying various industrial chemical products to the LMP Group for the production of paper and related products for over 10 years and thereby has established and maintained a close business relationship with the LMP Group. Given the 2024 Chemicals Purchase Transactions shall be conducted on normal commercial terms that are fair and reasonable, the potential increase in sales of industrial chemical products by the 2024 Chemicals Purchase Annual Caps allows the Group to generate additional revenue for the three years ending 31 December 2026, which is beneficial to the business development of the Group.

Having considered the above reasons and benefits, we concur with the Directors' view that the 2024 Chemicals Purchase Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2024 Chemicals Purchase Agreement

Date:	29 December 2023
Parties:	(i) LMP (as purchaser) (ii) the Company (as supplier)
Nature of Transaction:	LMP (or any other member of the LMP Group) will purchase various industrial chemical products from the Company (or any other member of the Group) by placing purchase order(s).

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The Group will be responsible for the transportation of the industrial chemical products to the LMP Group while the transportation costs will be borne by the LMP Group.

There is no minimum amount of industrial chemical products required to be purchased by the LMP Group but the aggregate amount of all purchase orders placed by the LMP Group shall not exceed the 2024 Chemicals Purchase Annual Caps.

Pursuant to the 2024 Chemicals Purchase Agreement, the Group will supply a wide spectrum of industrial chemical products to the LMP Group, depending on the LMP Group's needs from time to time and the Group's evolving product range taking into account future technical enhancements and/or new development of products. The Group will supply industrial chemical products to the LMP Group which include (but are not limited to) caustic soda, styrene-acrylic latex surface sizing agent and polyaluminium chloride.

Term of Agreement: Three years commencing from 1 January 2024 up to and including 31 December 2026.

Payment: Delivery will be made by the Group within three 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 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.

The Board is of the view that the above payment terms are fair, reasonable and on normal commercial terms taking into account that the credit period is at the mid-range of standard credit periods granted to the Group's customers (being 7 days to 60 days upon delivery) for the financial year ended 31 December 2022.

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Pricing Policy and Price
Determination
Procedures:

The price and terms of payment under the 2024 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices per ton of the type of industrial chemical products required at the relevant time when purchase orders are made provided that the price paid by the LMP Group shall not be less than those available to the Company from independent third party buyers.

In determining such prices and terms of sales to the LMP Group, the 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.

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In the usual course, the sales team of the Group would, on a weekly basis, decide on the sales price range for different chemical products which apply to all customers equally (including independent third-party customers and the LMP Group). The price range is determined based on the latest pricing information gathered from a number of relevant websites which publish information on pricing (which appear to be updated on a weekly basis). These websites provide industry information such as pricing, repairs, operation rates, production capacity and data analysis and it is the industry practice for buyers and suppliers to refer to these websites to assess the recent market price of chemical products. For chemical products which are commonly found in similar quality and specifications in the marketplace, such as caustic soda, the sales team of the Group will refer to certain pricing websites it subscribed to, which grant the Group access to databases of market pricing quotations in relation to these chemical products, for example the SCI Price Center (prices.sci99.com). However, for specialty chemical products, such as polyaluminium chloride and styrene-acrylic latex surface sizing agent, the pricing may not be directly comparable to market prices because the chemical formula and composition of specialty chemical products are tailored to the specific use of the customer. The exact mix and composition of the chemical formula is unique and therefore cannot be found and compared against those readily available in the market. For the pricing of such specialty chemical products, the sales team of the Group would refer to the general price range as found in the market, on market pricing quotation sources such as makepolo.com (b2b.makepolo.com) and Baidu (b2b.baidu.com), with varied composition and quality to arrive at a reasonable profit margin for the sales of such products.

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In the usual course, the LMP Group would contact the sales team of the Group for the purchase of industrial chemical products. This would involve a discussion on the type and quantity of the industrial chemical products needed, the delivery time and location and the LMP Group's indicative purchase price.

Upon receiving the pricing request from LMP Group, the sales team will inform the finance department to then make enquiries of the relevant criteria for deciding sales price (which include quantity of sales, delivery and transportation costs) and check the inventory level of such requested chemical type to ascertain the inventory level of such chemicals the Group has at the time and relevant costs of production. The sales team will also check with the 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.

Once the sales team has gathered information on these criteria, the above findings would be consolidated and reported to the Company's head of sales who would then decide on the proposed sales price (based on the same set of criteria mentioned above applicable to all customers) for sales team to go back to the LMP Group, ensuring such sales will generate reasonable profits and on normal commercial terms for the Company. The LMP Group would then decide whether to accept the proposed sales price based on its pricing policy.

We have obtained and reviewed the 2021 Chemicals Purchase Agreement (together with the supplemental agreement thereto) and compared the terms thereunder with those under the 2024 Chemicals Purchase Agreement. It is noted that the 2024 Chemicals Purchase Transactions will be subject to the same terms as those under the 2021 Chemicals Purchase Agreement (as amended by the supplemental agreement) save for the new proposed annual caps.

As advised by the Management, the Group generally adopts the same sales process (including the pricing determination procedures) for supplying chemical products to all of its customers, irrespective of whether they are connected persons or independent third parties. For our due diligence purpose, we have reviewed 36

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randomly-selected sample transactions entered into between the Group and the LMP Group pursuant to and during the term of the 2021 Chemicals Purchase Agreement and compared such transactions with certain randomly-selected transactions with independent third-party customers of the Group conducted at or around the same time. Based on our review, we noted that the selling prices charged by the Group to the LMP Group were no less favourable to the Group than those charged by the Group to the relevant independent third-party customers for the same type of chemical product(s). We also noted that the payment terms under the aforesaid sample agreements between the Group and the LMP Group are no less favourable than those under the aforesaid sample agreements entered into with independent third-party customers.

In light of the above and in particular that such pricing policy will ensure the 2024 Chemicals Purchase Transactions to be conducted on terms no less favourable than those offered to other independent third-party customers of the Group, we concur with the Directors' view that the terms of the 2024 Chemicals Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

3. 2024 Chemicals Purchase Annual Caps

Set out below are the historical transaction amounts under the 2021 Chemicals Purchase Agreement for the three years ended 31 December 2023 and the 2024 Chemicals Purchase Annual Caps:

	For the year ended/ending 31 December					
	2021	2022	2023	2024	2025	2026
	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Actual)	<i>RMB'million</i> (Cap)	<i>RMB'million</i> (Cap)	<i>RMB'million</i> (Cap)
Transaction amount	154	155	158	N/A	N/A	N/A
			<i>(Note 1)</i>			
Annual cap	175	320	320	390	390	390
		<i>(Note 2)</i>	<i>(Note 2)</i>			
Utilisation rate	88%	48.4%	49.4%	N/A	N/A	N/A

Notes:

1. The actual amount incurred is based on the unaudited financial results of the Company.
2. These are the revised annual caps pursuant to the supplemental agreement entered into between LMP and the Company on 25 April 2022 to amend the annual caps for the 2021 Chemicals Purchase Agreement. Further details are set out in the joint announcement of LMP and the Company dated 25 April 2022.

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The actual amount incurred under the 2024 Chemicals Purchase Agreement is approximately RMB24.2 million from 1 January 2024 up to and including the Latest Practicable Date. The transaction amount under the 2024 Chemicals Purchase Agreement from 1 January 2024 up to and including the Latest Practicable Date is within the de minimis threshold for connected transactions and exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

Review of historical transaction amounts

The transaction amount of RMB154.0 million for the year ended 31 December 2021 remained relatively stable at approximately RMB155.0 million for the year ended 31 December 2022.

It is noted that the transaction amount for the year ended 31 December 2023 increase to approximately RMB158.0 million as compared to that of approximately RMB155.0 million for the year ended 31 December 2022. As advised by the Management, such increase was mainly due to gradual recovery of the market confidence and demand was recovering during the year ended 31 December 2023.

Assessment of the 2024 Chemicals Purchase Annual Caps

As disclosed in the Letter from the Board, the 2024 Chemicals Purchase Annual Caps are determined with reference to following factors:

- (i) the value of historical sales between members of the Group and the LMP Group;

The utilisation rate of the annual caps under the 2021 Chemicals Purchase Agreement for the three years ended 31 December 2023 were 88.0%, 48.4% and 49.4% respectively. The relatively lower utilisation rates for the year ended 31 December 2023 despite the strong demand from the LMP Group for some of the industrial chemical products were primarily due to drop in the prices of chemical products contributed by weak market sentiment and the digestion of higher-price raw materials accumulated from pandemic-related stockpiling during 2021. However, the Group considers that with the gradual ease of inflationary pressures and the normalization of economic activities, the market confidence and demand is expected to recover and the market price is expected to return to pre-pandemic levels from the low level of 2022 and 2023. Further, the LMP Group expects increase in future production volume of tissue paper and other paper products. Taking into account these factors, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards.

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(ii) LMP's anticipated consumption requirements;

The estimated quantities of the chemical products to be purchased by the LMP Group is determined not only by reference to its historical purchase quantities during the term of the 2021 Chemicals Purchase Agreement, but also taking into account factors including but not limited to (a) the increase in the production capacity of the LMP Group's manufacturing plants; and (b) the potential increase in demand of certain chemical products from the Group due to the increased demand for the LMP Group's paper products.

The increase in the production capacities of the LMP Group's manufacturing plants is primarily due to the expanded production capacity of its manufacturing plant in Guangxi and Jiangxi Provinces and the commencement of production of an additional production line in the production base in Malaysia (the "**Malaysia Plants**") since 2022, to which the Group has been supplying chemical products. As disclosed in the LMP Annual Report 2022 and the LMP Interim Report 2023, the annual production capacity of the Malaysia Plants amounted to 1.05 million tons and 1.4 million tons of paper as at 31 December 2022 and 30 June 2023, respectively. The production facilities in Guangxi and Jiangxi Provinces are expected to achieve full production capacity in 2024 and operate at full capacity during 2025 and 2026.

In recent years, there has been an increased demand for the LMP Group's paper products which also led to an increased demand of chemical products the LMP Group needed from the Group.

The Group requested the projected consumption requirements from various production facilities of the LMP Group to be prepared on the assumption that these production facilities operate at full production capacity during the three years ending 31 December 2026 and based on the projected requirements, the maximum annual transaction quantity between the Group and the LMP Group for the three years ending 31 December 2026 are expected to increase by approximately 15% as compared with the annual caps for the two years ended 31 December 2023.

(iii) the production capacity and estimated quantity of industrial chemical products to be manufactured by the Group; and

Considering the historical and expected increase in consumption requirements from the LMP Group, the Group reviewed its own production capacity and is of the view that there is room for additional sales to be made to the LMP Group in general. Therefore, the Directors

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consider that an increase in the annual caps is necessary in order to accommodate the potential increase in the LMP Group's demand for chemical products.

- (iv) the anticipated market price fluctuations for the period from 1 January 2024 up to and including 31 December 2026.

The estimated selling prices of the chemical products during the term of the 2024 Chemicals Purchase Agreement were determined by reference to the historical selling price ranges of the chemical products from 2021 to 2023. The Company observed the average selling price per ton of the Group's various chemical products to hit their historical peak during 2021 when the market demand suddenly surged due to disrupted supply chain during COVID-19 pandemic. The Company believes that the highest market price of various chemical products from 2021 to 2023 is an appropriate benchmark for determining the estimated selling prices for the three years ending 31 December 2026 as it provides sufficient buffers to cater for the possible market turbulence due to supply chain disruption or other factors beyond control of the Company and to accommodate the expected increase in market price during the term of the 2024 Chemicals Purchase Agreement.

There is an imminent need to adjust upwards the annual caps for the three years ending 31 December 2026 so that the Group is able to continue to provide a steady supply of quality industrial chemical products to the LMP Group in order to fulfil its production needs. Therefore, the Directors consider that an increase in the annual caps is necessary in order to cater for such significant market price fluctuations.

In assessing the fairness and reasonableness of the 2024 Chemicals Purchase Annual Caps, we have discussed with the Management regarding the principal bases and assumptions adopted for determining the 2024 Chemicals Purchase Annual Caps. We were given to understand that the sales of chemical products by the Group to the LMP Group are mainly driven by the expected demand for chemical products as a result of the establishment of new production facilities in Guangxi Province of the LMP Group.

For our due diligence purpose, we have obtained from the Company and reviewed the projection table in respect of the estimated annual transaction amount for the sales of chemical products by the Group to the LMP Group for the three years ending 31 December 2026 (the "**Chemicals Purchase Projection Table**"). We noted from the Chemicals Purchase Projection Table that such estimated annual transaction amount is derived from multiplying the estimated

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quantities of various chemical products to be purchased by the LMP Group by the estimated selling prices of such chemical products.

In determining the estimated quantities of the chemical products to be purchased from the Group, the LMP Group estimated the annual consumption volume of different chemical products taking into account (i) its historical purchase quantities from the Group for the three years ended 31 December 2023; (ii) the expected increase in the production capacity of manufacturing plants of the LMP Group as a result of planned expansion of establishment of new production facilities in Jiangxi Province, Guangxi Province and Malaysia; and (iii) the increased demand for chemical products as the raw materials for its paper products and their resulting increased demand in chemical products and the expected portion to be purchased from the Group.

In this respect, we have obtained and reviewed the LMP Group's historical purchase quantities of chemical products from the Group for the three years ended 31 December 2023 and the planned production capacities and management schedule of the manufacturing plants of the LMP Group for the three years ending 31 December 2026. As advised by Management and disclosed in the LMP Annual Report 2022, due to the quarantine measurements enforced by the PRC government during the year ended 31 December 2022, the market sentiment in PRC was relatively weak as compared to the year ended 31 December 2021 which led to the demand for packaging paper remained weak for the year ended 31 December 2022. As such, the purchase quantities of chemical products slightly dropped from approximately 102,000 tons for the year ended 31 December 2021 to approximately 82,000 tons for the year ended 31 December 2022. The purchase quantities of chemical products for the year ended 31 December 2023 was approximately 90,000 tons, representing an increase of approximately 9.8%, as compared to that of approximately 82,000 tons for the year ended 31 December 2022. Such increase was mainly driven by the setup of overseas production bases and commenced production since 2022 in Malaysia. We noted the primary products ranked by quantity supplied to the LMP Group was caustic soda, styrene acrylic surface sizing agent and hydrogen peroxide for each of the three years ended 31 December 2023, while the purchase quantity of caustic soda accounted for over 50% of the total purchase quantities of chemical products for each of the three years ended 31 December 2023.

From the Chemicals Purchase Projection Table, we noted there are substantial increases in the estimated purchase quantities in several chemicals, including but not limited to caustic soda and hydrogen peroxide for the year ending 31 December 2024 as compared to the actual purchase quantities for the year ended 31 December 2023. The growth rates of the estimated purchase quantities of these several chemicals for the year ended 31 December 2024 ranged from 12.7% to 471.7% as compared to the actual purchase quantities for the year ended 31 December 2023. Such increases are primarily attributable to

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(i) demand from the new production facilities in Guangxi Province of the LMP Group established in October 2023, which is principally engaged in production of wood pulp, which would require more chemicals in the production process as compared with the production facilities which principally engaged in production of paper or tissue paper; (ii) the increase demand from the expanded production facilities in Malaysia Plants as advised by the Management; and (iii) the increase demand from a new production line in the LMP Jiangxi Plants. It is noted the estimated purchase quantities of caustic soda and hydrogen peroxide from the new production facilities in Guangxi Province of the LMP Group for the year ending 31 December 2024 account for approximately 43.8% and 65.4%, respectively, of the total increment in purchase quantity in 2024 as compared to 2023. On the other hand, it is noted the estimated purchase quantities of caustic soda and hydrogen peroxide from the new production line in the LMP Jiangxi Plants for the year ending 31 December 2024 account for approximately 41.3% and 24.5%, respectively, of the total increment in purchase quantity in 2024 as compared to 2023. As disclosed in the LMP Interim Report 2023, the new wood pulp production lines in Guangxi Province and Jiangxi Province that commenced operation in the second half of 2023 will facilitate the stable supply of raw materials for tissue paper, thereby achieving significant cost reduction and effective implementation of the vertical integration strategy.

Further, the production capacity of the LMP Group has been increasing throughout the recent years. In particular, the annual production capacity for paper and related products of the LMP Group increased from approximately 8,695,000 tons in 2021 to approximately 9,115,000 tons in 2022, representing an increase of approximately 420,000 tons or a year-on-year growth of approximately 4.8%. As disclosed in the LMP Annual Report 2022, the LMP Group is actively expanding its recycled pulp business and the coverage and diversification of its production capacity with the aim of sustainably enhancing the LMP Group's profitability in the PRC and overseas markets. The third paper-making machine in the Malaysian plant was put into production in the third quarter of 2022 with an annual capacity of 350,000 tons and the LMP Group has planned to put a new pulp mill in Guangxi Province into productions in the third quarter of 2023 with a planned capacity of 350,000 tons.

With respect to the estimated selling prices of the chemical products, the Group determined the estimated selling prices with reference to the historical selling price ranges of the chemical products for the three years ended 31 December 2023. In this respect, we have obtained and reviewed a table summarising the historical selling price ranges of the relevant chemical products for the three years ended 31 December 2023 and noted that the estimated selling prices adopted in the Chemicals Purchase Projection Table are within the relevant historical price ranges.

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As disclosed in the annual reports of the Company for each of the three years ended 31 December 2022, set out below are the approximate average selling prices of the Group's primary chemical products for each of the three years ended 31 December 2022:

Chemical products	Average selling price (per ton)		
	For the	For the	For the
	year ended	year ended	year ended
	31 December	31 December	31 December
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
1. methylene chloride	2,700	4,500	4,000
2. chloroform	2,100	4,000	4,200
3. caustic soda	630	820	1,280
4. polytetrafluoroethylene	44,000	56,000	54,500
5. hydrogen peroxide	1,040	1,120	930

As advised by the Management, there were price fluctuations of the primary products during the year ended 31 December 2022. For instance, we noted that quoted prices of hydrogen peroxide as quoted from SCI Price Center (prices.sci99.com) ranged from approximately RMB830 to RMB1,190 during the year ended 31 December 2022. We further noted that the prices of hydrogen peroxide as quoted from SCI Price Center (prices.sci99.com) ranged RMB740 to RMB1,993 during the year ended 31 December 2023. In particular, most of the prices of hydrogen peroxide as quoted from SCI Price Center (prices.sci99.com) were above RMB1,100 for the six months ended 31 December 2023. We noted the selling prices of the primary products provided to the LMP Group in the Chemicals Purchase Projection Table, such as caustic soda and hydrogen peroxide, are in line with the prices in the above table and the quoted prices as quoted from SCI Price Center (prices.sci99.com). The Directors expect that such price levels are likely to maintain or even increase during the term of the 2024 Chemicals Purchase Agreement, assuming 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.

It is also noted that the Management has applied a buffer of approximately 15% to the aggregate annual transaction amount derived from the Chemicals Purchase Projection Table to arrive at the Chemicals Purchase Annual Caps. As advised by the Management, such buffer was applied to accommodate unforeseeable circumstances such as unexpected increase in demand for the chemical products from the LMP Group and/or unexpected price fluctuations of the chemical products during the term of the 2024 Chemicals Purchase Agreement.

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Moreover, the average compound annual growth rate of the average selling prices of the Group's primary chemical products from 2020 to 2022 was approximately 22.3%.

Additionally, we have conducted a search on the website of the Stock Exchange for circulars in respect of continuing connected transactions relating to sale and purchases of products/services published by listed companies in Hong Kong within three months prior to the date of the 2024 Chemicals Purchase Agreement (the "CCT Circulars"). We have identified an exhaustive list of 53 CCT Circulars which have disclosed the percentage of buffer applied in arriving at the proposed annual caps and noted that the buffers ranged from 1.6% to 30% with an average of approximately 9.6% and that the buffer of approximately 15% adopted by the Company was within the range. Notwithstanding that the buffer of approximately 15% adopted by the Company is above the average percentage of buffer of the selected CCT Circulars, taking into account that (i) the unforeseeable circumstances may take place during the term of the 2024 Chemicals Purchase Agreement; (ii) the buffer was applied to allow flexibility in the event that the actual demand from the LMP Group exceeds the estimated annual transaction amount for the sales of chemical products by the Group for the three years ending 31 December 2026, which allows the Company to capture any unexpected additional sales opportunities; (iii) the average compound annual growth rate of the average selling prices of the Group's primary chemical products from 2020 to 2022 was approximately 22.3% as mentioned above; and (iv) the buffer of approximately 15% adopted by the Company is still within the range of the selected CCT Circulars, we are of the view that the adopted buffer of approximately 15% is acceptable.

For illustrative purpose, the 2024 Chemicals Purchase Annual Caps of RMB390 million (equivalent to approximately HK\$421 million) accounts for approximately 7.1% of the Group's total revenue for the year ended 31 December 2022. Given that it represents a relatively small portion of the Group's total revenue from a historical perspective, the Directors consider, and we concur, that the Group would have ample capacity to handle the 2024 Chemicals Purchase Transactions.

Based on the above, we are of the view that the 2024 Chemicals Purchase Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

V. Internal Control Procedures

We have discussed with and understood from the Company that it has adopted the following internal control measures to ensure that the transactions respectively contemplated under the 2024 Continuing Connected Transaction Agreements will be

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conducted on normal commercial terms and in accordance with the respective terms of the 2024 Continuing Connected Transaction Agreements:

- (i) the Company will continuously monitor and conduct monthly evaluations of the actual transaction amounts thereunder to ensure that the actual transaction amounts will not exceed the relevant annual caps and, when there is any possibility that the transaction amounts will exceed relevant annual caps, the finance department will report to the Management in a timely manner;
- (ii) the finance department of the Company will also conduct semi-annual reviews of the transactions conducted under each of the 2024 Continuing Connected Transaction Agreements to consider the effectiveness of the pricing policies and the payment methods; identify management weaknesses, and recommend improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable;
- (iii) the sales team of the Group will conduct regular checks to review and assess whether the continuing connected transactions contemplated under the 2024 Continuing Connected Transaction Agreements are conducted in accordance with the terms therein; and
- (iv) the Group has engaged an independent professional adviser to provide internal audit services and to assist the Board (and its audit committee) in ongoing monitoring of the risk management and internal control systems of the Group and the relevant risk management report and internal control report will be submitted to the Board (and its audit committee) for review at least once a year.

In relation to the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement, (i) in terms of the electricity service fees, the Group will on a semi-annual basis, compare the all-inclusive costs for generation of electricity (i.e. service fees for generating electricity plus the cost of coal fuel) to be charged or paid by the Group with the State Grid Corporation of China of Jiangsu province and Jiangxi province respectively and to adjust the service fees with reference to the most recent reference prices available from State Grid Corporation of China as explained below; and (ii) in terms of the steam service fees, the Group will monitor the mid-range reference steam price (中準價格) as published in the Notice on Adjustments of Sales Prices of Steam (關於調整蒸汽銷售價格的通知) issued by the National Development and Reform Commission in Changshu city on the government website or through government notices from time to time.

In terms of price adjustment mechanism for steam and electricity under both 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement, the Group will conduct price review subsequent to each government notice

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publication and at least on a semi-annual basis to determine if price adjustment is needed for prospective transactions in the next six months period before the next price review. Price review on a semi-annual basis caters for the relatively small fluctuation of the adjusted sales price after eliminating the impact of change in coal prices which will be borne by the purchaser. In each price review, the management of the Group and LMP Group will refer to the most recent government reference prices to mutually determine the net change in steam sales price (adjusted for the change in recent coal prices) and then compare the unit cost with such adjusted reference prices and agree on the price adjustment (if needed). Future sales price will not be adjusted so long as the estimated margin to be charged by the Company (calculated by comparing the current coal-adjusted sales price and production costs) does not exceed the 25% threshold, such that the overall pricing will be maintained at relatively stable level (while actual margin may fluctuate within the 25% upper limit depending on the sales price) to ensure steady supply and income to Jiangxi Chemical at the same time.

Given the synergies between the Group and the LMP Group in supplying electricity and steam to each other, and the expected long term supply relationship, and taking into account the tailored arrangements for each other to minimise potential disruption of supply, the overall margin for both the Group (as supplier under the 2024 Jiangxi Steam and Electricity Agreement) and the LMP Group (as supplier under the 2024 Jiangsu Steam and Electricity Agreement) is expected to be about the same. The Directors are of the view that the price adjustment mechanism helps to ensure the unit price of steam and electricity remains within reasonable range of market rates and that production costs with a reasonable margin will be charged or paid.

In relation to the 2024 Chemicals Purchase Agreement, the sales team of the Group will obtain weekly updates on the market prices of various chemical products with reference to pricing websites to decide on the price range for each chemical product applicable to all sales to be made during that week. As the weekly price range of chemical products apply to, and that the head of sales of the Group would decide on the proposed sales price based on the same set of criteria for, all customers equally, the Directors are of the view that the terms being offered by the Group to the LMP Group are no more favourable than the terms available to independent third-party customers.

The independent non-executive Directors will conduct an annual review of the transactions contemplated under each of the 2024 Continuing Connected Transaction Agreements pursuant to Rule 14A.55 of the Listing Rules.

The auditor of the Company will conduct an annual review of the transactions contemplated under each of the 2024 Continuing Connected Transaction Agreements pursuant to Rule 14A.56 of the Listing Rules.

We noted from the above that the Group has adopted a set of internal control measures to obtain the prevailing government-guidance prices or market prices (as the case may be) and perform regular reviews to ensure that the transactions contemplated under each of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2024 Continuing Connected Transaction Agreements will be conducted on normal commercial terms and in accordance with the 2024 Continuing Connected Transaction Agreements.

Furthermore, we noted from the annual report of the Company for FY2021 and the Annual Report 2022 that the independent non-executive Directors reviewed the historical transactions contemplated under the 2021 Continuing Connected Transaction Agreements conducted during the year ended 31 December 2021 and 2022 and confirmed that such transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the 2021 Continuing Connected Transaction Agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole. Besides, the auditor of the Company also confirmed to the Directors that nothing has come to its attention that causes it to believe that such transactions (i) have not been approved by the Board; (ii) were not, in all material aspects, in accordance with the pricing policies of the Company for transactions involving the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the 2021 Continuing Connected Transaction Agreements; or (iv) have exceeded the annual cap as set by the Company. As mentioned above, the transactions contemplated under each of the 2024 Continuing Connected Transaction Agreements will continue to be subject to the relevant annual review requirements pursuant to Rules 14A.55 to 14A.59 of the Listing Rules.

Taking the above into account, we are of the view that there are appropriate measures in place to govern the conduct of the transactions contemplated under each of the 2024 Continuing Connected Transaction Agreements, thereby safeguarding the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that:

- (i) the terms of the 2024 Jiangsu Steam and Electricity Agreement (including the 2024 Jiangsu Steam and Electricity Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the 2024 Jiangsu Steam and Electricity Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole;
- (ii) the terms of the 2024 Jiangxi Steam and Electricity Agreement (including the 2024 Jiangxi Steam and Electricity Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the 2024 Jiangxi Steam and Electricity Transactions are conducted 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the terms of the 2024 Chemicals Purchase Agreement (including the 2024 Chemicals Purchase Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the 2024 Chemicals Purchase Transactions are conducted 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, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2024 Continuing Connected Transaction Agreements (including the respective proposed annual caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the securities and investment banking industries.

* *For identification purposes only*

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 respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. DISCLOSURE OF INTERESTS**1. Interests and short positions of Directors and chief executives 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 executives 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 executives of the Company were taken or deemed to have under such provisions of the SFO); or (ii) recorded in register required to be 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	Capacity	Number of Shares interest (Long Position)	Approximate % of Shares
Lee Man Yan	Beneficial owner	536,250,000	65%
Wai Siu Kee	Beneficial owner	82,500,000	10%

Details of share options held by a Director

Name of Director	Date of grant of share options	Exercise price (HK\$)	Exercise period	Number of share options	Approximate % of Shares
Lee Man Yan	14.07.2017	3.72	01.04.2022– 31.03.2027	82,500,000	10%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions 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 interests and short positions which he was taken or deemed to have under such provisions of the SFO) or the Model Code.

2. Interests and short position of Shareholders in the Shares, underlying Shares and debentures of the Company

As at the Latest Practicable Date, so far as was known to the Directors, shareholders (other than Directors and chief executives of the Company) who had interests and short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 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:

Notifiable interests in Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate % of interest in the issued share capital of the Company
Ms. Kwok Ching Yee Lorinda	Interest of Spouse	536,250,000	65%

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any person (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company 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.

2. LITIGATION

Neither the Company nor any of its subsidiaries are engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Group.

3. MATERIAL ADVERSE CHANGE

As disclosed in the profit warning announcement of the Company dated 27 February 2024, based on the preliminary assessment of the consolidated management accounts of the Group and the information currently available, the profit attributable to owners of the Company for the year ended 31 December 2023 has recorded a decrease by approximately 65% as compared to that for the year ended 31 December 2022, mainly due to decrease in revenue and gross profit margin of the Group during the current period, resulted from the decrease in average market prices of the Group's major products due to weak market conditions.

Save as disclosed above, the Directors confirmed that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2022, 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 have entered into or propose 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 is the qualification of the Independent Financial Adviser, which has given its opinion or advice which is contained in this circular:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed by the SFC for carrying out Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) As at the Latest Practicable Date, the Independent Financial Adviser 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, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2022, being the date up to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

7. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (a) None of the Directors have any direct or indirect interests 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 2022, being the date up to which the latest published audited financial statements of the Group were made up.
- (b) None of the Directors are materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ho Chun Ho Jason, who is 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 Unit B, 35th Floor, Lee & Man Commercial Center, 169 Electric Road, North Point, Hong Kong.
- (c) 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 Continuing Connected Transaction Agreements will be published on the websites of the HKEXnews (www.hkexnews.hk) and the Company (www.leemanchemical.com) for a period of not less than 14 days from the date of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lee & Man Chemical Company Limited (the “**Company**”) will be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 22 March 2024 at 11:30 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

As ordinary business, to consider and if thought fit, pass the following as ordinary resolutions:

- (1) “**THAT** the agreement dated 29 December 2023 entered into between Jiangsu Lee & Man Paper Manufacturing Company Limited (the “**Jiangsu Paper**”) and Jiangsu Lee & Man Chemical Limited (“**Jiangsu Chemical**”) (the “**2024 Jiangsu Steam and Electricity Agreement**”) pursuant to which Jiangsu Paper supplies steam and electricity to Jiangsu Chemical, and its annual caps and the transactions contemplated thereunder be and are hereby approved and any one director of the Company be and are hereby authorised to exercise all the powers of the Company and take all other steps as they may in their opinion to be desirable or necessary in connection with the 2024 Jiangsu Steam and Electricity Agreement and the transactions contemplated thereunder and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”
- (2) “**THAT** the agreement dated 29 December 2023 entered into between Jiangxi Lee & Man Chemical Limited (the “**Jiangxi Chemical**”) and Lee & Man Paper Manufacturing Limited (“**LMP**”) (the “**2024 Jiangxi Steam and Electricity Agreement**”) pursuant to which Jiangxi Chemical supplies steam and electricity to LMP (or LMP’s group companies), and its annual caps and the transactions contemplated thereunder be and are hereby approved and any one director of the Company be and are hereby authorised to exercise all the powers of the Company and take all other steps as they may in their opinion to be desirable or necessary in connection with the 2024 Jiangxi Steam and Electricity Agreement and the transactions contemplated thereunder and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (3) “**THAT** the agreement dated 29 December 2023 entered into between the Company and LMP (the “**2024 Chemicals Purchase Agreement**”) pursuant to which the Company sells (or procure its subsidiaries to sell) industrial chemical products to LMP (or LMP’s group companies), and its annual caps and the transactions contemplated thereunder be and are hereby approved and any one director of the Company be and are hereby authorised to exercise all the powers of the Company and take all other steps as they may in their opinion to be desirable or necessary in connection with the 2024 Chemicals Purchase Agreement and the transactions contemplated thereunder and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”

By Order of the Board
Lee & Man Chemical Company Limited
Ho Chun Ho Jason
Company Secretary

Hong Kong, 7 March 2024

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 EGM, 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 Secretaries Limited, 17/F, 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 register of members of the Company will be closed from Tuesday, 19 March 2024 to Friday, 22 March 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 18 March 2024.

NOTICE OF EXTRAORDINARY GENERAL MEETING

6. 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.
7. A form of proxy for use at the EGM is enclosed.

At the date of this notice, the Board 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.