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LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.leeman.com.hk>

(Stock Code : 746)

CONNECTED TRANSACTION JOINT VENTURE – FURTHER SHAREHOLDERS' LOAN

Reference is made to the announcement of the Company dated 28 June 2011, in relation to a joint venture agreement dated 28 June 2011 (“**JV Agreement**”) entered into between the Company, Lee & Man Paper Manufacturing Limited (“**LMP**”) and Southern Hill Company Limited (“**HK Company**”), for the purpose of establishing a joint venture in the PRC to undertake certain pier construction projects in Jiangxi, China.

At the request of the HK Company and pursuant to the terms of the JV Agreement, the Company and LMP wish to contribute on a pro-rata basis, a further interest-free shareholders' loan in an aggregate amount of US\$20,000,000 (with each of the Company and LMP contributing US\$10,000,000). The Shareholders' Loan will not be subject to any security and will not have a fixed term but will be repayable at any time at the request of the Company and/or LMP (as the case may be).

Mr Lee Wan Keung Patrick, is a controlling shareholder of both LMP (in which he holds approximately 54.1% of the issued shares of LMP through his wholly-owned company, Gold Best Holdings Ltd. as at the date of this announcement) and the Company (through his 55.0% controlling interest in Fortune Star Tradings Ltd., which, as at the date of this announcement, is interested in 75.0% of the issued shares in the Company). Therefore, the Shareholders' Loan, given that it is on an interest free basis, constitutes a connected transaction for the Company under the Listing Rules. Given that the amount of the Shareholders' Loan, when aggregated with the amount of the Initial Shareholders' Loan (being a total of US\$32,000,000), is above the *de minimis* thresholds under Rule 14A.31(2) of the Listing Rules, but remains less than 5% of each of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules), the Shareholders' Loan is only subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

FURTHER SHAREHOLDERS' LOAN

Reference is made to the announcement (“**Announcement**”) of the Company dated 28 June 2011, in relation to a joint venture agreement dated 28 June 2011 (“**JV Agreement**”) entered into between the Company, Lee & Man Paper Manufacturing Limited (“**LMP**”) and Southern Hill Company Limited (“**HK Company**”), for the purpose of establishing a joint venture in the PRC to undertake certain pier construction projects in Jiangxi, China. Unless the context requires otherwise, defined terms used in this announcement shall have the same meaning as the defined terms in the Announcement.

At the request of the HK Company and pursuant to the terms of the JV Agreement, the Company and LMP wish to contribute on a pro-rata basis, a further interest-free shareholders' loan in an aggregate amount of US\$20,000,000 (with each of the Company and LMP contributing US\$10,000,000) (“**Shareholders' Loan**”). The Shareholders' Loan will not be subject to any security and will not have a fixed term but will be repayable at any time at the request of the Company and/or LMP (as the case may be).

REASONS FOR THE FURTHER SHAREHOLDERS' LOAN

As mentioned in the Announcement, the purpose of entering into the JV Agreement is to establish a vehicle to undertake certain pier construction projects in Jiangxi, China. The Joint Venture with LMP would allow the Group to share the costs and expenses of the Project without having to seek external bank financing which would incur additional costs.

As the date of this announcement, each of the Company and LMP have contributed approximately US\$4,000,000 in shareholders' loans (in aggregate amounting to approximately US\$8,000,000 out of the initial shareholders' loan amount of US\$12,000,000 (“**Initial Shareholders' Loan**”) as mentioned in the Announcement), which has been used to cover the initial costs and expenses of undertaking the pier construction in Jiangxi to date. The Company and LMP will provide the remaining amount of the Initial Shareholders' Loan to cover the continuing construction costs of the projects in Jiangxi and the Shareholders' Loan will provide further funding that is expected to be required to continue with the construction of such piers.

No director of the Company has a material interest in the Shareholders' Loan or is required to abstain from voting on the board resolutions in relation to the same. The directors (including the independent non-executive directors) of the Company, consider that the provision of the Shareholders' Loan is in the interests of the shareholders of the Company as a whole.

PRINCIPAL ACTIVITIES OF THE COMPANY, LEE & MAN PAPER MANUFACTURING LIMITED AND SOUTHERN HILL COMPANY LIMITED

The Company and its subsidiaries are principally engaged in the chemical production.

LMP and its subsidiaries are a large-scale paper manufacturer and specialize in the production of linerboard and corrugating medium. The shares of LMP are listed on the main board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The HK Company is an investment holding company and the Company and LMP each indirectly hold 50% of the entire issued share capital of the HK Company through their wholly-owned subsidiaries, Lee & Man Chemical Investment Limited (formerly known as Lee & Man Chemical Limited, a wholly-owned subsidiary of the Company) and Lee & Man Industries Company Limited (a wholly-owned subsidiary of LMP).

DETAILS OF THE CONNECTED RELATIONSHIP AND LISTING RULE IMPLICATIONS

Mr Lee Wan Keung, Patrick, is a controlling shareholder of both LMP (in which he holds approximately 54.1% of the issued shares of LMP through his wholly-owned company, Gold Best Holdings Ltd. as at the date of this announcement) and the Company (through his 55.0% controlling interest in Fortune Star Tradings Ltd., which, as at the date of this announcement, is interested in 75.0% of the issued shares in the Company). Therefore, the Shareholders' Loan, given that it is on an interest free basis, constitutes a connected transaction for the Company under the Listing Rules. Given that the amount of the Shareholders' Loan, when aggregated with the amount of the Initial Shareholders' Loan (being a total of US\$32,000,000), is above the *de minimis* thresholds under Rule 14A.31(2) of the Listing Rules, but remains less than 5% of each of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules), the Shareholders' Loan is only subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

By order of the Board
Lee & Man Chemical Company Limited
理文化工有限公司

Wai Siu Kee
Chairman

Hong Kong, 17 July 2012

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Ms. Wai Siu Kee, Mr. Lee Man Yan, Mr. Yang Zuo Ning and Ms. Wong Yuet Ming and three independent non-executive directors, namely Mr. Wong Kai Tung, Tony, Mr. Wan Chi Keung, Aaron BBS JP and Mr. Heng Victor Ja Wei.