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理 文 造 紙 有 限 公 司*
Lee & Man Paper Manufacturing Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2314)



理 文 化 工 有 限 公 司*
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(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 746)

JOINT ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

New Jiangsu Steam and Electricity Agreement

On 28 March 2018, the New Jiangsu Steam and Electricity Agreement was entered into between Jiangsu Paper and Jiangsu Chemical in connection with the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical. The New Jiangsu Steam and Electricity Agreement has a term of three years commencing from 1 January 2018 up to and including 31 December 2020.

New Jiangxi Steam and Electricity Agreement

On 28 March 2018, the New Jiangxi Steam and Electricity Agreement was entered into between Jiangxi Chemical and LMP in connection with the supply of steam and electricity by Jiangxi Chemical to the LMP Group. The New Jiangxi Steam and Electricity Agreement has a term of three years commencing from 1 January 2018 up to and including 31 December 2020.

New Jiangsu Lease Agreement

On 28 March 2018, the New Jiangsu Lease Agreement was entered into between Jiangsu Paper and Jiangsu Chemical in connection with the leasing of certain properties located at Lee & Man Road, Yan Jiang Industrial Park, Changshu Economic Development Zone, Jiangsu Province, PRC. Such properties are leased by Jiangsu Paper to Jiangsu Chemical for use as office, staff quarters and guestrooms. The New Jiangsu Lease Agreement has a term of three years commencing from 1 January 2018 up to and including 31 December 2020.

* For identification purposes only

New Jiangxi Lease Agreement

On 28 March 2018, the New Jiangxi Lease Agreement was entered into between Jiangxi Chemical and LMP in connection with the leasing of certain properties located at Ma Tou Industrial City, Ma Tou Town, Rui Chang City, Jiangxi Province, PRC. Such properties are leased by Jiangxi Chemical to LMP Group for use as staff quarters and guestrooms. The New Jiangxi Lease Agreement has a term of three years commencing from 1 January 2018 up to and including 31 December 2020.

New Chemicals Purchase Agreement

On 28 March 2018, the New Chemicals Purchase Agreement was entered into between LMP and LMC pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group. The New Chemicals Purchase Agreement has a term of three years commencing from 1 January 2018 up to and including 31 December 2020.

LISTING RULES IMPLICATIONS

The above New Continuing Connected Transaction Agreements constitute continuing connected transactions for LMP and LMC.

LMP

In respect of LMP, the transactions under the 2017 Dongguan Steam and Electricity Agreement and the New Jiangsu Steam and Electricity Agreement would be aggregated for the purpose of Rule 14A.81 of the Listing Rules.

The relevant percentage ratios under the Listing Rules for each of the New Jiangsu Lease Annual Caps and New Jiangxi Lease Annual Caps are respectively, on an annual basis, less than 0.1%, and the New Jiangsu Lease Agreement and the New Jiangxi Lease Agreement are therefore fully exempt from the shareholders' approval, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The relevant percentage ratios under the Listing Rules for each of the Aggregated LMP Steam and Electricity Annual Caps, New Jiangxi Steam and Electricity Annual Caps and the New Chemicals Purchase Annual Caps are respectively, on an annual basis, more than 0.1% but less than 5%. Accordingly, the New Jiangsu Steam and Electricity Agreement, New Jiangxi Steam and Electricity Agreement, New Chemicals Purchase Agreement and the respective annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, the relevant percentage ratios under the Listing Rules for each of the New Jiangsu Steam and Electricity Annual Caps, New Jiangxi Steam and Electricity Annual Caps, New Jiangsu Lease Annual Caps, New Jiangxi Lease Annual Caps and the New Chemicals Purchase Annual Caps are respectively, on an annual basis, more than 0.1% but less than 5%. Accordingly, the New Jiangsu Steam and Electricity Agreement, New Jiangxi Steam and Electricity Agreement, New Jiangsu Lease Agreement, New Jiangxi Lease Agreement, New Chemicals Purchase Agreement and their respective annual caps will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. THE BACKGROUND

On 9 February 2015, the 2015 Jiangsu Steam and Electricity Agreement, the 2015 Jiangxi Steam and Electricity Agreement, the 2015 Jiangsu Lease Agreement, the 2015 Jiangxi Lease Agreement and the 2015 Chemicals Purchase Agreement were entered into between members of the LMP Group and the LMC Group, further details of which are set out in the joint announcement of LMP and LMC dated 9 February 2015.

On 1 June 2017, the 2017 Chemicals Purchase Agreement was entered into between LMP and LMC, further details of which are set out in the joint announcement of LMP and LMC dated 1 June 2017 and the announcement of LMC dated 9 June 2017. The 2015 Chemicals Purchase Agreement was terminated with effect from 1 June 2017 when the 2017 Chemicals Purchase Agreement was entered into.

As the 2015 Jiangsu Steam and Electricity Agreement, the 2015 Jiangxi Steam and Electricity Agreement, the 2015 Jiangsu Lease Agreement, the 2015 Jiangxi Lease Agreement and the 2017 Chemicals Purchase Agreement expired, the parties have entered into the New Continuing Connected Transaction Agreements to renew the above arrangements.

The New Continuing Connected Transaction Agreements, which the Directors of LMP and LMC consider to be distinctly separate and different in nature with one another given the nature of these transactions, will constitute continuing connected transactions for LMP and LMC and further details of these agreements are set out below.

B. THE NEW CONTINUING CONNECTED TRANSACTION AGREEMENTS

1. New Jiangsu Steam and Electricity Agreement

Date: 28 March 2018

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 electricity to be generated and supplied shall be charged at RMB0.0684 (excluding VAT) per kWh. The coal for generating the 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 Jiangsu Chemical.

The steam to be generated and supplied shall be charged at RMB25.641 (excluding VAT) per ton measured by Jiangsu Paper's meter. The coal for generating the steam 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 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 2018 up to and including 31 December 2020.

Payment: Steam and electricity service fees 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 New Jiangsu Steam and Electricity Annual Caps.

Pricing Policy: The steam and electricity service fees are based on the actual supply costs (including overheads and the financing costs of the electricity and steam generating facilities) of Jiangsu Paper, plus a margin of not more than 18%. The New 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 LMC and LMP against, among others, those available from government authorities in the Jiangsu province to determine the reasonableness and competitiveness of such pricing.

2. New Jiangxi Steam and Electricity Agreement

Date: 28 March 2018

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

Nature of Transaction:	<p>Jiangxi Chemical will generate and supply steam and electricity to LMP (or any other member of the LMP Group).</p> <p>The electricity to be generated and supplied shall be charged at RMB0.0684 (excluding VAT) per kWh. The coal for generating the 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 LMP Group.</p> <p>The steam to be generated and supplied shall be charged at RMB25.641 (excluding VAT) per ton measured by Jiangxi Chemical's meter. The coal for generating the steam 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 LMP Group.</p> <p>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.</p>
Term of Agreement:	3 years commencing from 1 January 2018 up to and including 31 December 2020.
Payment:	Steam and electricity service fees 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 New Jiangxi Steam and Electricity Annual Caps.
Pricing Policy:	The steam and electricity service fees are based on the actual supply costs (including overheads and the financing costs of the electricity and steam generating facilities) of Jiangxi Chemical, plus a margin of not more than 18%. The New 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 LMC and LMP against, among others, those available from government authorities in the Jiangxi province to determine the reasonableness and competitiveness of such pricing.

3. New Jiangsu Lease Agreement

Date:	28 March 2018
Parties:	(i) Jiangsu Paper (as lessor) (ii) Jiangsu Chemical (as lessee)
Nature of Transaction:	Jiangsu Paper (as lessor) will lease to Jiangsu Chemical (as lessee) certain properties located at Lee & Man Road, Yan Jiang Industrial Park, Changshu Economic Development Zone, Jiangsu Province, PRC. Such properties comprise:- <ol style="list-style-type: none">1) third floor office space (at a monthly rate of RMB7,520)2) staff quarters (at a monthly rate of RMB581 per room)3) guestrooms (to be determined based on actual daily usage at a daily rate of RMB36 per room).
Term of Agreement:	3 years commencing from 1 January 2018 up to and including 31 December 2020.
Payment:	Subject to the limits of the New Jiangsu Lease Annual Caps, payment of the rent for each month shall be made by Jiangsu Chemical (using its internal financial resources) before the fifteenth day of the following month by way of bank transfer to the lessor's designated bank account.
Pricing Policy:	The lease rates and terms of payment under the New Jiangsu Lease Agreement were determined by reference to market prices of other independent third party providers of similar sized premises in the province and were based on normal commercial terms after arm's length negotiation. The lease rates under the New Jiangsu Lease Agreement were comparable to the sample prices obtained by management staff of Jiangsu Chemical from two independent third party providers of similar sized premises in the province. The lease rates under the New Jiangsu Lease Agreement were also comparable to the sample prices obtained by the management staff of Jiangsu Paper from two independent third party providers of similar sized premises in the province.

4. New Jiangxi Lease Agreement

Date:	28 March 2018
Parties:	(i) Jiangxi Chemical (as lessor) (ii) LMP (as lessee)
Nature of Transaction:	Jiangxi Chemical (as lessor) will lease to LMP (or any other member of the LMP Group) (as lessee) certain properties located at Ma Tou Industrial City, Ma Tou Town, Rui Chang City, Jiangxi Province, PRC. Such properties comprise:- <ol style="list-style-type: none">1) staff quarters (at a monthly rate ranging from RMB581 to RMB1,566 per room)2) guestrooms (to be determined based on actual daily usage at a daily rate of RMB36 per room).
Term of Agreement:	3 years commencing from 1 January 2018 up to and including 31 December 2020.
Payment:	Subject to the limits of the New Jiangxi Lease Annual Caps, payment of the rent for each month shall be made by LMP (using its internal financial resources) before the fifteenth day of the following month by way of bank transfer to the lessor's designated bank account.
Pricing Policy:	The lease rates and terms of payment under the New Jiangxi Lease Agreement were determined by reference to market prices of other independent third party providers of similar sized premises in the province and were based on normal commercial terms after arm's length negotiation. The lease rates under the New Jiangxi Lease Agreement were comparable to the sample prices obtained by management staff of LMP from two independent third party providers of similar sized premises in the province. The lease rates under the New Jiangxi Lease Agreement were also comparable to the sample prices obtained by management staff of Jiangxi Chemical from two independent third party providers of similar sized premises in the province.

5. New Chemicals Purchase Agreement

Date:	28 March 2018
Parties:	(i) LMP (as purchaser) (ii) LMC (as supplier)
Nature of Transaction:	<p>LMP (or any other member of the LMP Group) will purchase various industrial chemical products from LMC (or any other member of the LMC Group) at a price based on the prevailing market price per ton at the time an order is placed.</p> <p>The LMC 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.</p> <p>There is no minimum amount of industrial chemical products required to be purchased by the LMP Group.</p>
Term of Agreement:	3 years commencing from 1 January 2018 up to and including 31 December 2020.
Payment:	<p>Delivery will be made by the LMC Group within 3 business days of the placement of the relevant purchase order by the LMP Group specifying the type and amount of industrial chemical products required.</p> <p>The relevant member of the LMC Group will issue monthly sales invoices to the relevant member of the LMP Group and such invoices shall be settled in cash by the relevant member of the LMP Group (using its internal resources) within 30 days of the date of issue of the sales invoices.</p>
Pricing Policy:	<p>The price and terms of payment under the New Chemicals Purchase Agreement will be determined by reference to the prevailing market prices at the relevant time when purchase orders are made provided that the prices charged by the LMC Group shall not be higher than that available from independent third party suppliers. The management staff of the relevant member of the LMP Group will monitor and take samples of the market prices for relevant industrial chemical products available from at least two independent third party suppliers on a monthly basis to ensure prices charged by the LMC Group do not exceed those of independent third party suppliers.</p>

In determining such prices and terms of sales to LMP Group, LMC Group would in its ordinary course go through its usual 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 unrelated third party customers.

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

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

Upon gathering the above market data, the marketing team will then present such data to the sales department whilst the finance department will be informed to then make enquiries and check the inventory level of such requested chemical type to ascertain the inventory level of such chemicals LMC Group has at the time and relevant costs of production. It will also check with LMC Group's logistics department to ascertain an estimation of delivery and related transportation costs based on the proposed delivery location and details on chemicals to be delivered.

The above findings would be consolidated and reported to LMC's head of sales who would then decide on a price range for sales team to go back to LMP Group in order to agree and finalise the sale price with LMP Group, ensuring such sales will generate reasonable profits and on normal commercial terms for LMC.

Considering the pricing policies as outlined above and that the respective transactions contemplated under the New Continuing Connected Transaction Agreements will be subject to annual review by the independent non-executive Directors and the auditors of LMP and LMC, respectively (save that in respect of LMP, the New Jiangsu Lease Agreement and the New Jiangxi Lease Agreement are fully exempt from the annual review requirements under Chapter 14A of the Listing Rules), the Directors (including the independent non-executive Directors) of each of LMP and LMC believe that the pricing determination procedures outlined above are sufficient to ensure that the respective transactions contemplated under the New Continuing Connected Transaction Agreements will be conducted on normal commercial terms or better and not prejudicial to the interests of LMC/LMP (as the case may be) and their respective minority shareholders.

C. HISTORICAL AMOUNTS AND ANNUAL CAPS

The aggregate transaction amounts actually incurred for the services or products provided under the 2015 Jiangsu Steam and Electricity Agreement, the 2015 Jiangxi Steam and Electricity Agreement, the 2015 Jiangsu Lease Agreement, the 2015 Jiangxi Lease Agreement, the 2014 Chemicals Purchase Agreement, the 2015 Chemicals Purchase Agreement and the 2017 Chemicals Purchase Agreement as compared against the related annual caps for the relevant periods are set out below:–

Transaction type	Amount		
	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
2015 Jiangsu Steam and Electricity Agreement			
Services to generate steam and electricity by Jiangsu Paper to Jiangsu Chemical	Actual amount incurred		
	RMB59.3 million (approximately HK\$74.1 million)	RMB55.7 million (approximately HK\$69.6 million)	RMB57.9 million (approximately HK\$72.4 million)
	Annual cap		
	RMB70 million (approximately HK\$87.5 million)	RMB70 million (approximately HK\$87.5 million)	RMB70 million (approximately HK\$87.5 million)

Transaction type	Amount		
	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017

2015 Jiangxi Steam and Electricity Agreement

Services to generate steam and electricity by Jiangxi Chemical to Jiangxi Paper	Actual amount incurred		
		RMB31.0 million (approximately HK\$38.8 million)	RMB29.4 million (approximately HK\$36.8 million)
	Annual cap		
	RMB40 million (approximately HK\$50 million)	RMB53 million (approximately HK\$66.25 million)	RMB53 million (approximately HK\$66.25 million)

2015 Jiangsu Lease Agreement

Lease of premises by Jiangsu Paper to Jiangsu Chemical	Actual amount incurred		
		RMB1.5 million (approximately HK\$1.88 million)	RMB1.5 million (approximately HK\$1.88 million)
	Annual cap		
	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)

Transaction type	Amount		
	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017

2015 Jiangxi Lease Agreement

Lease of premises by Jiangxi Chemical to Jiangxi Paper	Actual amount incurred		
		RMB1.1 million (approximately HK\$1.4 million)	RMB1.2 million (approximately HK\$1.5 million)
	Annual cap		
	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)

2014 Chemicals Purchase Agreement

Purchase of various industrial chemical products from Jiangsu Chemical by Guangdong Paper	Actual amount incurred		
		RMB6 million (approximately HK\$7.5 million)	RMB5.9 million (approximately HK\$7.4 million)
	(Note: The 2014 Chemicals Purchase Agreement expired on 31 December 2016)		
	Annual cap		
	RMB12 million (approximately HK\$15 million)	RMB12 million (approximately HK\$15 million)	N/A

Transaction type	Amount		
	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017

2015 Chemicals Purchase Agreement

Purchase of various industrial chemical products from Jiangsu Chemical by Jiangsu Paper	Actual amount incurred		
		RMB4.6 million (approximately HK\$5.8 million)	RMB5.9 million (approximately HK\$7.4 million)

(Note: The 2015 Chemicals Purchase Agreement was terminated with effect from 1 June 2017)

Annual cap			
	RMB30 million (approximately HK\$37.5 million)	RMB30 million (approximately HK\$37.5 million)	RMB30 million (approximately HK\$37.5 million)

2017 Chemicals Purchase Agreement

Purchase of various industrial chemical products from LMC Group by LMP Group	Actual amount incurred		
		N/A	N/A

Annual cap			
	N/A	N/A	RMB66 million (approximately HK\$82.5 million)

D. NEW ANNUAL CAPS

The proposed New Jiangsu Steam and Electricity Annual Caps, New Jiangxi Steam and Electricity Annual Caps, New Jiangsu Lease Annual Caps, New Jiangxi Lease Annual Caps and New Chemicals Purchase Annual Caps for each of the three years commencing from 1 January 2018 up to and including 31 December 2020 are as follows:–

Type of Transaction	Amount		
	Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020
New Jiangsu Steam and Electricity Annual Caps	RMB80 million (approximately HK\$100 million)	RMB80 million (approximately HK\$100 million)	RMB80 million (approximately HK\$100 million)
New Jiangxi Steam and Electricity Annual Caps	RMB90 million (approximately HK\$112.5 million)	RMB90 million (approximately HK\$112.5 million)	RMB90 million (approximately HK\$112.5 million)
New Jiangsu Lease Annual Caps	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)
New Jiangxi Lease Annual Caps	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)	RMB5 million (approximately HK\$6.25 million)
New Chemicals Purchase Annual Caps	RMB110 million (approximately HK\$137.5 million)	RMB110 million (approximately HK\$137.5 million)	RMB110 million (approximately HK\$137.5 million)

The annual caps stated above are exclusive of VAT.

New Jiangsu Steam and Electricity Annual Caps

The New Jiangsu Steam and Electricity Annual Caps have been determined by reference to the amount of historical transactions between Jiangsu Paper and Jiangsu Chemical as set out above, taking into account Jiangsu Paper's own anticipated consumption requirements, the spare steam and electricity capacity of Jiangsu Paper available for Jiangsu Chemical's requirements, 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 2018 up to and including 31 December 2020, as well as 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).

In determining the New 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.

New Jiangxi Steam and Electricity Annual Caps

The New Jiangxi Steam and Electricity Annual Caps have been determined by reference to the amount of historical transactions between Jiangxi Paper and Jiangxi Chemical as set out above, taking into account Jiangxi Chemical's own anticipated consumption requirements, the spare steam and electricity capacity of Jiangxi Chemical available for the LMP Group's requirements, 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 2018 up to and including 31 December 2020, as well as 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).

In determining the New 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 utilisation rate of its production facilities.

New Jiangsu Lease Annual Caps

The New Jiangsu Lease Annual Caps were based on the agreed fixed monthly lease rates under the New Jiangsu Lease Agreement which was arrived at on normal commercial terms after arm's length negotiation with reference to (i) the historical monthly lease rates between Jiangsu Chemical and Jiangsu Paper under the 2015 Jiangsu Lease Agreement; (ii) the anticipated number of staff of Jiangsu Chemical; and (iii) the lease rates of similar properties charged by independent third parties in the nearby area.

New Jiangxi Lease Annual Caps

The New Jiangxi Lease Annual Caps were based on the agreed fixed monthly lease rates under the New Jiangxi Lease Agreement which was arrived at on normal commercial terms after arm's length negotiation with reference to (i) the historical monthly lease rates between Jiangxi Chemical and Jiangxi Paper under the 2015 Jiangxi Lease Agreement; (ii) the anticipated number of staff of the LMP Group; and (iii) the lease rates of similar properties charged by independent third parties in the nearby area.

New Chemicals Purchase Annual Caps

The New Chemicals Purchase Annual Caps have been determined by reference to (i) the value of historical sales between members of the LMC Group and the LMP Group, (ii) LMC's own anticipated consumption requirements, (iii) the production capacity and estimated quantity of industrial chemical products to be manufactured by the LMC Group and (iv) anticipated market price fluctuations for the period from 1 January 2018 up to and including 31 December 2020.

From June 2017 onwards, LMC's new production line for industrial chemicals commenced commercial production, thus increasing the LMC Group's production capacity. Further, this new production line produces a new chemical specifically for improving the quality of paper manufacturing. LMP Group commenced operation of new production lines in Jiangxi and Vietnam during 2017 and has been purchasing this new chemical since June 2017.

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

E. REASONS AND BENEFITS FOR THE TRANSACTIONS

New Jiangsu Steam and Electricity Agreement and New Jiangxi Steam and Electricity Agreement

Each of the New Jiangsu Steam and Electricity Agreement and the New 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 LMC have production plants located in both the provinces of Jiangsu and Jiangxi which require electricity and steam for manufacturing their paper and chemical products respectively. To facilitate the production process in Jiangsu and Jiangxi, LMP and LMC 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 Jiangsu and Jiangxi.

LMP's power station is located in Jiangsu and LMC's power station is located in Jiangxi.

The proximity of the power stations to the relevant operations mean that both LMC and LMP would be able to obtain electricity and steam at a lower price from each other than from other third party suppliers. Supplies of steam and electricity from independent external suppliers (including the PRC governmental bodies) will not be as stable as compared to supplies from the power stations of LMC and LMP. As the production plants of LMC 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. The New Jiangsu Steam and Electricity Agreement and New 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 LMC and LMP located in Jiangsu and Jiangxi.

This arrangement will also help both LMC and LMP to improve the utilisation of their respective power stations as the supply of steam and electricity under the New Jiangsu Steam and Electricity Agreement and New Jiangxi Steam and Electricity Agreement represents surplus steam and electricity generated and produced at the respective 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.

New Jiangsu Lease Agreement and New Jiangxi Lease Agreement

The New Jiangsu Lease Agreement and New Jiangxi Lease Agreement were entered into with a view for the various subsidiaries of LMC and LMP to take advantage of the strategic location of the office and accommodation facilities of each other and to enhance and promote the strategic positioning and the business operation efficiency of LMC and LMP in Jiangsu and Jiangxi province. The income received by LMC and LMP from leasing their facilities to each other will also provide long-term and steady income flow for both groups and maximise utilisation of the respective premises.

New Chemicals Purchase Agreement

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

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

The Directors (including the independent non-executive Directors) of each of LMP and LMC are of the view that the New Continuing Connected Transaction Agreements are in the ordinary and usual course of LMP's and LMC's businesses. The Directors (including the independent non-executive Directors) are also of the view that the terms of the New Continuing Connected Transaction Agreements are fair and reasonable, on normal commercial terms and are in the interests of each of LMP, LMC and their respective shareholders as a whole.

F. GENERAL

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

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

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of LMC, an associate of Mr. Lee Wan Keung Patrick, the ultimate controlling shareholder of LMP. Jiangsu Paper and Jiangxi Paper are both indirect wholly-owned subsidiary of LMP. As at the date of this announcement, Mr. Lee Wan Keung Patrick indirectly holds 56.85% of the issued shares in LMP. Mr. Lee Wan Keung Patrick is also the ultimate controlling shareholder of LMC (through his shareholding interest in Fortune Star Tradings Ltd. (“Fortune Star”), the controlling shareholder of LMC). As at the date of this announcement, Fortune Star is interested in approximately 41.25% of the issued shares in LMC and Mr. Lee Wan Keung Patrick is interested in all of the issued shares in Fortune Star. Therefore, (1) Jiangsu Chemical, Jiangxi Chemical, LMC and Mr. Lee Wan Keung Patrick are connected persons of LMP under the Listing Rules; and (2) Jiangsu Paper, Jiangxi Paper, LMP and Mr. Lee Wan Keung Patrick are connected persons of LMC under the Listing Rules. Accordingly, the transactions under the New Continuing Connected Transaction Agreements constitute continuing connected transactions of both LMP and LMC under the Listing Rules. LMP does not hold any shares in LMC and vice versa as at the date of this announcement.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, who are Directors of LMP and associates of Mr. Lee Wan Keung Patrick, and Mr. Wong Kai Tung Tony, who is a Director of both LMP and LMC, had abstained from voting on the board resolutions of LMP in relation to the New Continuing Connected Transaction Agreements. Ms. Wai Siu Kee and Mr. Lee Man Yan, who are Directors of LMC and associates of Mr. Lee Wan Keung Patrick, and Mr. Wong Kai Tung Tony, who is a Director of both LMP and LMC, had abstained from voting on the board resolutions of LMC in relation to the New Continuing Connected Transaction Agreements.

Save as aforesaid, no other director of LMP or LMC has any material interest in the New Continuing Connected Transaction Agreements or was required to abstain from voting at the board meetings of LMP and LMC in relation to the same.

Mr. Li King Wai Ross, a Director of LMP and son-in-law of Mr. Lee Wan Keung Patrick, had voluntarily abstained from voting on the board resolutions of LMP in relation to the New Continuing Connected Transaction Agreements to avoid the perception of conflict of interest.

G. LISTING RULES IMPLICATIONS

LMP

In respect of LMP, the transactions under the 2017 Dongguan Steam and Electricity Agreement and the New Jiangsu Steam and Electricity Agreement would be aggregated as the services (steam and electricity) to be provided and the parties under the 2017 Dongguan Steam and Electricity Agreement and the 2017 Jiangsu Steam and Electricity Agreement are the same or otherwise associated.

The relevant percentage ratios under the Listing Rules for each of the New Jiangsu Lease Annual Caps and New Jiangxi Lease Annual Caps are respectively, on an annual basis, less than 0.1%, and the New Jiangsu Lease Agreement and the New Jiangxi Lease Agreement are therefore fully exempt from the shareholders' approval, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The relevant percentage ratios under the Listing Rules for each of the Aggregated LMP Steam and Electricity Annual Caps, New Jiangxi Steam and Electricity Annual Caps and the New Chemicals Purchase Annual Caps are respectively, on an annual basis, more than 0.1% but less than 5%. Accordingly, the New Jiangsu Steam and Electricity Agreement, New Jiangxi Steam and Electricity Agreement, New Chemicals Purchase Agreement and the respective annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, the relevant percentage ratios under the Listing Rules for each of the New Jiangsu Steam and Electricity Annual Caps, New Jiangxi Steam and Electricity Annual Caps, New Jiangsu Lease Annual Caps, New Jiangxi Lease Annual Caps and the New Chemicals Purchase Annual Caps are respectively, on an annual basis, more than 0.1% but less than 5%. Accordingly, the New Jiangsu Steam and Electricity Agreement, New Jiangxi Steam and Electricity Agreement, New Jiangsu Lease Agreement, New Jiangxi Lease Agreement, New Chemicals Purchase Agreement and their respective annual caps will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

H. DEFINITIONS

The following defined terms are used in this announcement:

“2014 Chemicals Purchase Agreement”	the agreement dated 27 June 2014 entered into between Guangdong Paper (as purchaser) and Jiangsu Chemical (as supplier) in relation to the supply of various industrial chemical products to Guangdong Paper from Jiangsu Chemical, details of which are set out in the announcement of LMC dated 27 June 2014;
“2015 Jiangsu Steam and Electricity Agreement”	the agreement dated 9 February 2015 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 LMC dated 9 February 2015;
“2015 Jiangxi Steam and Electricity Agreement”	the agreement dated 9 February 2015 between Jiangxi Chemical and Jiangxi Paper in relation to the supply of steam and electricity by Jiangxi Chemical to Jiangxi Paper, details of which are set out in the joint announcement of LMP and LMC dated 9 February 2015;
“2015 Jiangsu Lease Agreement”	the agreement dated 9 February 2015 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper (as lessor) would lease the use of certain office spaces and properties to Jiangsu Chemical (as lessee), details of which are set out in the joint announcement of LMP and LMC dated 9 February 2015;
“2015 Jiangxi Lease Agreement”	the agreement dated 9 February 2015 entered into between Jiangxi Paper and Jiangxi Chemical pursuant to which Jiangxi Chemical (as lessor) would lease the use of certain properties to Jiangxi Paper (as lessee), details of which are set out in the joint announcement of LMP and LMC dated 9 February 2015;
“2015 Chemicals Purchase Agreement”	the agreement dated 9 February 2015 between Jiangsu Paper and Jiangsu Chemical in relation to the supply of various industrial chemical products to Jiangsu Paper from Jiangsu Chemical, details of which are set out in the joint announcement of LMP and LMC dated 9 February 2015;

“2017 Chemicals Purchase Agreement”	the agreement dated 1 June 2017 between LMP and LMC in relation to the supply of various industrial chemical products to the LMP Group from the LMC Group, details of which are set out in the joint announcement of LMP and LMC dated 1 June 2017;
“2017 Dongguan Steam and Electricity Agreement”	the agreement dated 10 February 2017 entered into between Dongguan Lee & Man and Lee & Man Manufacturing for the supply of steam and electricity to Lee & Man Manufacturing, details of which are set out in the announcement of LMP dated 10 February 2017;
“Aggregated LMP Steam and Electricity Annual Caps”	the aggregated annual caps under the 2017 Dongguan Steam and Electricity Agreement and the New Jiangsu Steam and Electricity Agreement;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Directors”	the directors of LMP and LMC;
“Dongguan Lee & Man”	Dongguan Lee & Man Paper Factory Co., Ltd., a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Guangdong Paper”	Guangdong Lee & Man Paper Manufacturing Limited 廣東理文造紙有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“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 LMC;
“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited 江蘇理文造紙有限公司, a wholly-owned 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 LMC;

“Jiangxi Paper”	Jiangxi Lee & Man Paper Manufacturing Company Limited 江西理文造紙有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“kWh”	unit of electricity, i.e. kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour;
“Lee & Man Manufacturing”	Lee & Man Industrial Manufacturing Limited, a company incorporated in the Cayman Islands, and an indirect wholly-owned company of a daughter of Mr. Lee Wan Keung Patrick;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LMC”	Lee & Man Chemical Company Limited (formerly known as Lee & Man Holding Limited), a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMC Group”	LMC and its subsidiaries;
“LMP”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMP Group”	LMP and its subsidiaries;
“New Chemicals Purchase Agreement”	the agreement dated 28 March 2018 entered into between LMC (as supplier) and LMP (as purchaser) pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group, details of which are set out in this announcement;
“New Chemicals Purchase Annual Caps”	the maximum annual consideration to be paid or received for the supply of various industrial chemical products to the LMP Group under the New Chemicals Purchase Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020, details of which are set out in this announcement;
“New Continuing Connected Transaction Agreements”	the New Jiangsu Steam and Electricity Agreement, New Jiangxi Steam and Electricity Agreement, New Jiangsu Lease Agreement, New Jiangxi Lease Agreement and New Chemicals Purchase Agreement collectively;

“New Jiangsu Lease Agreement”	the agreement dated 28 March 2018 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper (as lessor) would lease certain properties to Jiangsu Chemical (as lessee), details of which are set out in this announcement;
“New Jiangsu Lease Annual Caps”	the maximum annual consideration to be paid or received for leasing certain properties under the New Jiangsu Lease Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020, details of which are set out in this announcement;
“New Jiangsu Steam and Electricity Agreement”	the agreement dated 28 March 2018 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 this announcement;
“New 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 New Jiangsu Steam and Electricity Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020, details of which are set out in this announcement;
“New Jiangxi Lease Agreement”	the agreement dated 28 March 2018 entered into between LMP and Jiangxi Chemical pursuant to which Jiangxi Chemical (as lessor) would lease certain properties to LMP (as lessee), details of which are set out in this announcement;
“New Jiangxi Lease Annual Caps”	the maximum annual consideration to be paid or received for leasing certain properties under the New Jiangxi Lease Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020, details of which are set out in this announcement;
“New Jiangxi Steam and Electricity Agreement”	the agreement dated 28 March 2018 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 this announcement;

“New 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 New Jiangxi Steam and Electricity Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020, details of which are set out in this announcement;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of PRC;
“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\$1.25 has been adopted for translating RMB into HK\$ in this announcement.

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

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

28 March 2018

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