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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.leemanchemical.com>

(Stock Code: 746)

ANNOUNCEMENT

Reference is made to the joint announcement of Lee & Man Chemical Company Limited (the “**Company**”) and Lee & Man Paper Manufacturing Limited dated 1 June 2017 (the “**Joint Announcement**”) in connection with the continuing connected transaction for the supply of various industrial chemical products under a New Chemical Purchase Agreement. Unless otherwise stated, the capitalised terms used herein shall have the same meaning as those defined in the Joint Announcement.

PRICING POLICY

The Joint Announcement stated that 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, taking into account (among other things) quotes from independent third party suppliers.

In addition to that disclosed in the Joint Announcement, the Board would like to supplement that 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 the Company.

Given the above procedures are adopted for the independent third party customers as well as for LMP Group, the Directors consider that the above procedures can ensure the transactions to be conducted will be on normal commercial terms and not prejudicial to the interests of LMC and its minority shareholders.

BASIS OF NEW ANNUAL CAP

It was stated in the Joint Announcement that in determining the new annual cap of RMB66 million (approximately HK\$75.0 million) for the period from 1 January 2017 to 31 December 2017, the New Chemicals Purchase Annual Cap has been determined by reference to, amongst other things, LMP Group's anticipated consumption requirements for the rest of 2017 and the production capacity and estimated quantity of industrial chemical products to be manufactured by LMC Group.

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 will produce a new chemical specifically for improving the quality of paper manufacturing. Based on the discussions with LMP Group, LMP Group has indicated its intention to purchase such chemical products, especially when LMP Group is expected to commence operation of a new production line in Jiangxi during the last quarter of 2017. Based on such preliminary discussions, the sales under the New Chemicals Purchase Agreement is expected to increase significantly in the second half of 2017, and with the Board's current expectation that the market price of relevant chemical products remaining relatively stable for the rest of 2017, LMC would therefore seek to increase its annual cap in order to ensure it is in a position to satisfy the demand from LMP Group and other customers at the relevant time.

The New Chemicals Purchase Agreement is entered into for a relatively short period ending on 31 December 2017, as it is the intention of both LMC Group and LMP Group to enter into a further chemicals purchase agreement with new annual caps for the years going forward, after being able to take into account the demand of chemicals for the rest of 2017 and so that the respective groups may reassess the annual caps accordingly.

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

Hong Kong, 9 June 2017

As at the date of this announcement, the Board 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.