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## **LEE & MAN CHEMICAL COMPANY LIMITED**

**理文化化工有限公司**

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

*Website: [www.leemanchemical.com](http://www.leemanchemical.com)*

**(Stock Code: 746)**

### **CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

#### **2021 LEASE AGREEMENTS**

##### **2021 Jiangsu Lease Agreement**

On 31 December 2020, the 2021 Jiangsu Lease Agreement was entered into between Jiangsu Paper (as lessor) and Jiangsu Chemical (as lessee) in connection with the leasing of certain properties located at Lee & Man Road, Yan Jiang Industrial Park, Changshu Economic Development Zone, Jiangsu Province, the PRC. Such properties are leased by Jiangsu Paper to Jiangsu Chemical for use as office, staff quarters and guestrooms. The 2021 Jiangsu Lease Agreement has a term of one year commencing from 1 January 2021 up to and including 31 December 2021 (subject to annual automatic renewal until 31 December 2023 unless otherwise terminated by either party).

##### **2021 Jiangxi Lease Agreements**

On 31 December 2020, the 2021 Jiangxi Lease Agreements were entered into between Jiangxi Chemical (as lessor) and certain members of the LMP Group (as lessees) in connection with the leasing of certain properties located at Ma Tou Industrial City, Ma Tou Town, Ruichang City, Jiangxi Province, the PRC. Such properties are leased by Jiangxi Chemical to the LMP Group for use as staff quarters and guestrooms. The 2021 Jiangxi Lease Agreements each have a term of one year commencing from 1 January 2021 up to and including 31 December 2021 (subject to annual automatic renewal until 31 December 2023 unless otherwise terminated by either party).

## **2021 LOADING AGREEMENTS**

On 31 December 2020, Jiangxi Paper, Jiangxi Chemical, Jiangsu Paper and Jiangsu Chemical entered into the 2021 Loading Agreements whereby Jiangxi Paper is to provide loading and unloading services to Jiangxi Chemical for its bulk carrier which carries industrial salt and containers which carries industrial chemical products and Jiangsu Paper is to provide loading and unloading services to Jiangsu Chemical for its bulk carrier which carries industrial salt. These agreements have a term of three years commencing from 1 January 2021 up to and including 31 December 2023.

## **LISTING RULES IMPLICATIONS**

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

As Jiangsu Chemical entered into the 2021 Jiangsu Lease Agreement as lessee, the Fixed Lease Payment is recognized as right-of-use assets under HKFRS 16 “Leases” and it constitutes a one-off connected transaction for the Company, while the Variable Lease Payment will be treated as a continuing connected transaction for the Company. On the other hand, since Jiangxi Chemical entered into the 2021 Jiangxi Lease Agreements as lessor, it constitutes a continuing connected transaction for the Company and it is required to set an annual cap on the annual rental income received.

Furthermore, the 2021 Loading Agreements constitute continuing connected transactions for the Company and they would be aggregated for the purpose of Rule 14A.81 of the Listing Rules.

It is expected that the Variable Lease Payment is “de minimis” after considering all the relevant applicable percentage ratios under the Listing Rules. The relevant percentage ratios under the Listing Rules in respect of the value of the right-of-use assets under the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Annual Cap are respectively more than 0.1% but less than 5%. Accordingly, the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Agreements 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.

The relevant percentage ratios under the Listing Rules for the 2021 Aggregated Loading Annual Caps are more than 0.1% but less than 5%. Accordingly, the 2021 Jiangxi Industrial Salt Loading Agreement, 2021 Jiangxi PAC Loading Agreement, 2021 Jiangsu Loading Agreement and their aggregated 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.

## I. 2021 LEASE AGREEMENTS

### Background

On 28 March 2018, the 2018 Jiangsu Lease Agreement and the 2018 Jiangxi Lease Agreement were entered into between members of the LMP Group and the Group. Further details are set out in the joint announcement of LMP and the Company dated 28 March 2018.

As the above agreements expired after 31 December 2020, the relevant parties have entered into the 2021 Lease Agreements to renew the aforementioned agreements, respectively.

The Directors consider the 2021 Lease Agreements to be distinctly separate and different in nature with one another given the nature of these transactions.

For the 2021 Jiangsu Lease Agreement, the Fixed Lease Payment constitutes a one-off connected transaction for the Company whereas the Variable Lease Payment is treated as a continuing connected transaction for the Company. On the other hand, the 2021 Jiangxi Lease Agreements constitutes a continuing connected transaction for the Company. Further details of these agreements are set out below.

### The 2021 Lease Agreements

#### 1. 2021 Jiangsu Lease Agreement

Date:	31 December 2020
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, the PRC. Such properties comprise:  1) third floor office space (at a monthly rate of RMB10,935)  2) staff quarters (at a monthly rate of RMB639 per room)  3) guestrooms (to be determined based on actual daily usage at a daily rate of RMB40 per room).

Term of Agreement: one year commencing from 1 January 2021 up to and including 31 December 2021 (subject to annual automatic renewal until 31 December 2023 unless otherwise terminated by either party).

Payment: Payment of the rent for each month shall be made by Jiangsu Chemical (using its internal financial resources) before the fifteenth day of the following month by way of bank transfer to the lessor's designated bank account.

In accordance with HKFRS 16, the Fixed Lease Payment is capital in nature for the Company, and it will be recognized as right-of-use assets of the Group, for an amount of approximately RMB5.1 million (approximately HK\$6.2 million). On the other hand, the Variable Lease Payment will be recorded as expenses over the term of the 2021 Jiangsu Lease Agreement. The Variable Lease Payment for the three years ending 31 December 2023 is expected to be no more than RMB300,000 (approximately HK\$360,000) each year.

Pricing Policy: The lease rates and terms of payment under the 2021 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 2021 Jiangsu Lease Agreement were comparable to the sample prices obtained by management staff of Jiangsu Chemical from two independent third party providers of similar sized premises in the province.

## ***2. 2021 Jiangxi Lease Agreements***

Date: 31 December 2020

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

Nature of Transaction:	Jiangxi Chemical (as lessor) will lease to Jiangxi Tissue and Jiangxi Paper respectively (or any other member of the LMP Group) (as lessee) certain properties located at Ma Tou Industrial City, Ma Tou Town, Ruichang City, Jiangxi Province, the PRC. Such properties comprise: <ol style="list-style-type: none"> <li>1) staff quarters (at a monthly rate ranging from RMB639 to RMB1,723 per room)</li> <li>2) guestrooms (to be determined based on actual daily usage at a daily rate of RMB40 per room).</li> </ol>
Term of Agreement:	one year commencing from 1 January 2021 up to and including 31 December 2021 (subject to annual automatic renewal until 31 December 2023 unless otherwise terminated by either party).
Payment:	Subject to the limits of the 2021 Jiangxi Lease Annual Caps, payment of the rent for each month shall be made by Jiangxi Tissue and Jiangxi Paper (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 2021 Jiangxi Lease Agreements 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 2021 Jiangxi Lease Agreements were comparable to the sample prices obtained by management staff of Jiangxi Chemical from two independent third party providers of similar sized premises in the province.

### **Historical Amounts and Annual Caps**

As the Variable Lease Payment under the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Agreements constitute continuing connected transactions for the Company, it is required to set an annual cap on the annual rental income to be received.

The aggregate transaction amounts actually incurred for the services or products provided under the 2018 Jiangsu Lease Agreement and the 2018 Jiangxi Lease Agreement as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Amount		
	Year ended 31 December 2018	Year ended 31 December 2019	Eleven months ended 30 November 2020
<b>2018 Jiangsu Lease Agreement</b>			
<b>Lease of premises by Jiangsu Paper to Jiangsu Chemical</b>	Actual amount incurred		
	RMB1.6 million (approximately HK\$2.0 million)	RMB1.6 million (approximately HK\$2.0 million)	RMB1.5 million (approximately HK\$1.8 million)
	Annual cap		
	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)
<b>2018 Jiangxi Lease Agreement</b>			
<b>Lease of premises by Jiangxi Chemical to LMP Group</b>	Actual amount incurred		
	RMB2.1 million (approximately HK\$2.5 million)	RMB1.9 million (approximately HK\$2.3 million)	RMB1.7 million (approximately HK\$2.0 million)
	Annual cap		
	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)

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

## 2021 Annual Caps

Assuming that the 2021 Lease Agreements are renewed for each of the financial years ending 31 December 2022 and 31 December 2023, the proposed 2021 Jiangsu Lease Annual Caps and 2021 Jiangxi Lease Annual Caps for each of the three years commencing from 1 January 2021 up to and including 31 December 2023 are as follows:

Type of Transaction	Amount		
	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023
<b>2021 Jiangsu Lease Annual Caps</b>	RMB300,000 (approximately HK\$360,000)	RMB300,000 (approximately HK\$360,000)	RMB300,000 (approximately HK\$360,000)
<b>2021 Jiangxi Lease Annual Caps</b>	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)	RMB5 million (approximately HK\$6 million)

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

### *2021 Jiangsu Lease Annual Caps*

The 2021 Jiangsu Lease Annual Caps (being the Variable Lease Payment) were based on the agreed fixed monthly lease rates under the 2021 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 2018 Jiangsu Lease Agreement; (ii) the anticipated number of staff and guest of Jiangsu Chemical; and (iii) the lease rates of similar properties charged by independent third parties in the nearby area.

### *2021 Jiangxi Lease Annual Caps*

The 2021 Jiangxi Lease Annual Caps were based on the agreed fixed monthly lease rates under the 2021 Jiangxi Lease Agreements which was arrived at on normal commercial terms after arm's length negotiation with reference to (i) the historical monthly lease rates between Jiangxi Chemical and LMP under the 2018 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.

## II. 2021 LOADING AGREEMENTS

### Background

The LMP Group has historically been providing loading and unloading services at LMP Group's docks in Jiangxi. As the relevant percentage ratios under the Listing Rules in respect of these existing loading agreements were less than 0.1%, they were therefore fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. As these existing loading agreements expired after 31 December 2020, the relevant parties have entered into the 2021 Loading Agreements to renew the agreements.

There are no existing loading agreements between the Group and the LMP Group for business operations in Jiangsu as the relevant loading fees have historically been included in the purchasing costs paid by the relevant supplier. However, the relevant parties agreed on an adjustment to this arrangement where the loading fee will no longer be borne by the supplier. As such, the relevant parties have entered into the 2021 Loading Agreements to give effect to this adjustment.

On 31 December 2020, the 2021 Jiangxi Industrial Salt Loading Agreement, the 2021 Jiangxi PAC Loading Agreement and the 2021 Jiangsu Loading Agreement were entered into between members of the Group and the LMP Group.

The 2021 Loading Agreements will constitute continuing connected transactions for the Company and they would be aggregated for the purpose of Rule 14A.81 of the Listing Rules. Further details of these agreements are set out below.

### The 2021 Loading Agreements

#### 1. *2021 Jiangxi Industrial Salt Loading Agreement*

Date:	31 December 2020
Parties:	(i) Jiangxi Paper (ii) Jiangxi Chemical
Nature of Transaction:	Jiangxi Paper will provide loading and unloading services to Jiangxi Chemical for its bulk carrier, which carries industrial salt.

The loading and unloading fee (inclusive of port charges and value-added tax) is RMB6.3 per ton of industrial salt.



Term of Agreement: 3 years commencing from 1 January 2021 up to and including 31 December 2023.

Payment: At the beginning of each month, Jiangxi Paper will provide a bill to Jiangxi Chemical regarding the fee for the loading and unloading services for the previous month.

Upon confirmation by both parties of the bill, Jiangxi Paper will issue an invoice to Jiangxi Chemical and the payment of the loading and unloading fee for each month shall be made by Jiangxi Chemical within 30 days of receiving the invoice, subject to the 2021 Aggregated Loading Annual Caps.

Pricing Policy: The loading and unloading fees under the 2021 Jiangxi Industrial Salt Loading Agreement are determined by reference to the cost for LMP Group to provide such loading and unloading services plus approximately a 30% margin and were based on normal commercial terms after arm's length negotiation. For loading and unloading industrial salt, such costs include berthing charges, mooring and unmooring charges, grab crane usage, unloading to truck fee, pier supervisor labour costs and stowage clearance fee.

As there are no nearby docks in Jiangxi province which could offer similar loading and unloading services in close proximity of Jiangxi Chemical, the loading and unloading fees under the 2021 Jiangxi Industrial Salt Loading Agreement are determined by reference to the market prices obtained from independent third parties by Jiangsu Chemical in Jiangsu province, further details of which are set out below. Given the similar nature of the loading and unloading services obtained by Jiangxi Chemical and Jiangsu Chemical, the Directors are of the view that such market comparables are appropriate alternatives given the lack of similar services in Jiangxi province.

These loading and unloading fees will be closely monitored by the logistics and finance departments of the Company through obtaining fee quotes referred to above on a quarterly basis from independent third party providers in order to ensure such pricing are fair and reasonable.

## 2. *2021 Jiangxi PAC Loading Agreement*

Date:	31 December 2020
Parties:	(i) Jiangxi Paper  (ii) Jiangxi Chemical
Nature of Transaction:	Jiangxi Paper will provide loading and unloading services to Jiangxi Chemical for its containers, which carries industrial chemical products.  The loading and unloading fees (inclusive of value-added tax) range from RMB83.87 to RMB186.72 per container.
Term of Agreement:	3 years commencing from 1 January 2021 up to and including 31 December 2023.
Payment:	At the beginning of each month, Jiangxi Paper will provide a bill to Jiangxi Chemical regarding the fee for the loading and unloading services for the previous month.  Upon confirmation by both parties of the bill, Jiangxi Paper will issue an invoice to Jiangxi Chemical and the payment of the loading and unloading fee for each month shall be made by Jiangxi Chemical within 30 days of receiving the invoice, subject to the 2021 Aggregated Loading Annual Caps.

Pricing Policy: The loading and unloading fees under the 2021 Jiangxi PAC Loading Agreement are determined by reference to the cost for LMP Group to provide such loading and unloading services and were based on normal commercial terms after arm's length negotiation. For loading and unloading containers, such costs include container yard transportation charges, crane charges, drayage and loading and unloading fees. As the relevant industrial chemical products are ultimately to be sold by Jiangxi Chemical to the LMP Group, Jiangxi Paper has agreed to charge such loading and unloading fees at cost to avoid cost impact on itself in the end and in the spirit of resource sharing.

As there are no nearby docks in Jiangxi province which could offer similar loading and unloading services in close proximity of Jiangxi Chemical, the loading and unloading fees under the 2021 Jiangxi PAC Loading Agreement are determined by reference to the market prices obtained from independent third parties by Jiangsu Chemical in Jiangsu province, further details of which are set out below. Given the similar nature of the loading and unloading services obtained by Jiangxi Chemical and Jiangsu Chemical, the Directors are of the view that such market comparables are appropriate alternatives given the lack of similar services in Jiangxi province.

These loading and unloading fees will be closely monitored by the logistics and finance departments of the Company through obtaining fee quotes referred to above on a quarterly basis from independent third party providers in order to ensure such pricing are fair and reasonable.

### ***3. 2021 Jiangsu Loading Agreement***

Date: 31 December 2020

Parties: (i) Jiangsu Paper  
(ii) Jiangsu Chemical

Nature of Transaction: Jiangsu Paper will provide loading and unloading services to Jiangsu Chemical for its bulk carrier, which carries industrial salt.

The loading and unloading fees (inclusive of port charges and value-added tax) are RMB7 per ton of coarse industrial salt and RMB8 per ton of fine industrial salt.

Term of Agreement: 3 years commencing from 1 January 2021 up to and including 31 December 2023.

Payment: At the end of each month, Jiangsu Paper will provide a bill to Jiangsu Chemical regarding the fee for the loading and unloading services for that month.

Upon confirmation by both parties of the bill, Jiangsu Paper will issue an invoice to Jiangsu Chemical and the payment of the loading and unloading fee for each month shall be made by Jiangsu Chemical within 30 days of receiving the invoice, subject to the 2021 Aggregated Loading Annual Caps.

Pricing Policy: The loading and unloading fees under the 2021 Jiangsu Loading Agreement are determined by reference to the cost for the LMP Group plus approximately a 30%–40% margin to provide such loading and unloading services. For loading and unloading industrial salt, such costs include berthing charges, mooring and unmooring charges, grab crane usage, unloading to truck fee, pier supervisor labour costs and stowage clearance fee.

The loading and unloading fees under the 2021 Jiangsu Loading Agreement are also determined by reference to market prices of other independent third party providers at nearby docks which offer similar loading and unloading services and were based on normal commercial terms after arm's length negotiation. The management staff of Jiangsu Chemical will monitor and obtain quotes for market prices for the loading and unloading fees available from at least two independent third party providers at nearby docks which offer similar loading and unloading services within the province on a quarterly basis to ensure prices charged by the LMP Group do not exceed those of the independent third party providers.

## Historical Amounts and Annual Caps

The aggregate transaction amounts actually incurred for the services or products provided under the existing loading agreements between Jiangxi Paper and Jiangxi Chemical as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Amount		
	Year ended 31 December 2018	Year ended 31 December 2019	Eleven months ended 30 November 2020

### Existing loading agreements between Jiangxi Paper and Jiangxi Chemical in relation to industrial salt

Loading and unloading services by Jiangxi Paper to Jiangxi Chemical	Actual amount incurred		
	RMB2.7 million (approximately HK\$3.2 million)	RMB2.4 million (approximately HK\$2.9 million)	RMB2.5 million (approximately HK\$3.0 million)

### Existing loading agreements between Jiangxi Paper and Jiangxi Chemical in relation to PAC container(s)

Loading and unloading services by Jiangxi Paper to Jiangxi Chemical	Actual amount incurred		
	Nil	RMB20,000 (approximately HK\$24,000)	RMB76,000 (approximately HK\$91,000)

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

## 2021 Annual Caps

The proposed 2021 Jiangxi Industrial Salt Loading Annual Caps, 2021 Jiangxi PAC Loading Annual Caps and 2021 Jiangsu Loading Annual Caps for each of the three years commencing from 1 January 2021 up to and including 31 December 2023 are as follows:

Type of Transaction	Amount		
	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023
<b>2021 Jiangxi Industrial Salt Loading Annual Caps</b>	RMB3,000,000 (approximately HK\$3,600,000)	RMB3,000,000 (approximately HK\$3,600,000)	RMB3,000,000 (approximately HK\$3,600,000)
<b>2021 Jiangxi PAC Loading Annual Caps</b>	RMB200,000 (approximately HK\$240,000)	RMB200,000 (approximately HK\$240,000)	RMB200,000 (approximately HK\$240,000)
<b>2021 Jiangsu Loading Annual Caps</b>	RMB1,800,000 (approximately HK\$2,160,000)	RMB1,800,000 (approximately HK\$2,160,000)	RMB1,800,000 (approximately HK\$2,160,000)

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

### ***2021 Jiangxi Industrial Salt Loading Annual Caps***

The 2021 Jiangxi Industrial Salt Loading Annual Caps were based on (i) the amount of historical transactions between Jiangxi Paper and Jiangxi Chemical as set out above; (ii) Jiangxi Chemical's own anticipated requirements for such loading and unloading services; and (iii) the market prices for the loading and unloading fees charged by independent third parties in the Jiangsu province.

### ***2021 Jiangxi PAC Loading Annual Caps***

The 2021 Jiangxi PAC Loading Annual Caps were based on (i) the amount of historical transactions between Jiangxi Paper and Jiangxi Chemical as set out above; (ii) Jiangxi Chemical's own anticipated requirements for such loading and unloading services; and (iii) the market prices for the loading and unloading fees charged by independent third parties in the Jiangsu province.

### *2021 Jiangsu Loading Annual Caps*

The 2021 Jiangsu Loading Annual Caps were based on (i) Jiangsu Chemical's own anticipated requirements for such loading and unloading services; and (ii) the market prices for the loading and unloading fees charged by independent third parties in the Jiangsu province.

In determining the proposed new annual caps under the 2021 Loading Agreements, the parties have also taken into account the assumption that during the respective terms of the 2021 Loading 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 Group.

### **III. REASONS AND BENEFITS FOR THE CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

The 2021 Jiangsu Lease Agreement and 2021 Jiangxi Lease Agreements were entered into with a view for the various subsidiaries of the Company to take advantage of the strategic location of the office and accommodation facilities of LMP and to enhance and promote the strategic positioning and the business operation efficiency of the Company in Jiangsu and Jiangxi province. The income to be received by the Company from the 2021 Lease Agreements will also provide long-term and steady income flow for the Company and maximise utilisation of the relevant premises.

The 2021 Loading Agreements were entered into with a view for the various subsidiaries of the Company to take advantage of the strategic location of LMP Group's docks in Jiangsu and Jiangxi province. The proximity advantage of LMP Group's docks offers a cost-efficient and cost-saving arrangement for the Company's business operations. By obtaining loading and unloading services from the LMP Group, the efficiency of the Company's business operations will be optimised because the relevant LMP Group's docks possess the necessary capacity to offer sufficient and reliable loading and unloading services for the Company and also because of the familiarity of the relevant LMP Group's staff with the Company's business operations.

The Directors (including the independent non-executive Directors) are of the view that the 2021 Lease Agreements and the 2021 Loading Agreements are in the ordinary and usual course of the Company's businesses. The Directors (including the independent non-executive Directors) are also of the view that the terms of the 2021 Lease Agreements and the 2021 Loading Agreements are fair and reasonable, on normal commercial terms and are in the interests of the Company and its shareholders as a whole.

#### IV. GENERAL

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

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

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

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, executive directors of LMP and each holding 31.27% issued shares of LMP as at the date of this announcement, are associates of Mr. Lee Man Yan, the ultimate controlling shareholder of the Company, holding 65% issued shares in the Company as at the date of this announcement. Therefore, Jiangsu Paper, Jiangxi Paper, Jiangxi Tissue and LMP are connected persons of the Company under the Listing Rules.

As Jiangsu Chemical entered into the 2021 Jiangsu Lease Agreement as lessee, the Fixed Lease Payment is recognized as right-of-use assets under HKFRS 16 “Leases” and constitutes a one-off connected transaction for the Company, while the Variable Lease Payment will be treated as a continuing connected transaction for the Company. On the other hand, since Jiangxi Chemical entered into the 2021 Jiangxi Lease Agreements as lessor, it constitutes a continuing connected transaction for the Company and it is required to set an annual cap on the annual rental income received.

Furthermore, the 2021 Loading Agreements constitute continuing connected transactions for the Company and they would be aggregated for the purpose of Rule 14A.81 of the Listing Rules.

Ms. Wai Siu Kee and Mr. Lee Man Yan (who are Directors and are associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun), and Mr. Wong Kai Tung Tony who is a director of both LMP and the Company, had abstained from voting on the board resolutions of the Company in relation to the 2021 Lease Agreements and the 2021 Loading Agreements.

Save as aforesaid, no other Director has any material interest in the 2021 Lease Agreements and the 2021 Loading Agreements or was required to abstain from voting at the board meetings of the Company in relation to the same.



## V. LISTING RULES IMPLICATIONS

It is expected that the Variable Lease Payment is “de minimis” after considering all the relevant applicable percentage ratios under the Listing Rules. The relevant percentage ratios under the Listing Rules in respect of the value of the right-of-use assets under the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Annual Cap are respectively more than 0.1% but less than 5%. Accordingly, the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Agreements 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.

The relevant percentage ratios under the Listing Rules for the 2021 Aggregated Loading Annual Caps are more than 0.1% but less than 5%. Accordingly, the 2021 Jiangxi Industrial Salt Loading Agreement, 2021 Jiangxi PAC Loading Agreement, 2021 Jiangsu Loading Agreement and their aggregated 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.

## VI. DEFINITIONS

The following defined terms are used in this announcement:

“2018 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 the joint announcement of LMP and the Company dated 28 March 2018;
“2018 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 the joint announcement of LMP and the Company dated 28 March 2018;
“2021 Aggregated Loading Annual Caps”	the maximum aggregated annual consideration to be paid for loading and unloading services under the 2021 Jiangxi Industrial Salt Loading Agreement, the 2021 Jiangxi PAC Loading Agreement and the 2021 Jiangsu Loading Agreement for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;

“2021 Jiangsu Lease Agreement”	the agreement dated 31 December 2020 entered into between Jiangsu Paper and Jiangsu Chemical pursuant to which Jiangsu Paper (as lessor) would lease certain properties to Jiangsu Chemical (as lessee), details of which are set out in this announcement;
“2021 Jiangsu Lease Annual Caps”	the maximum annual consideration to be paid for leasing certain properties under the 2021 Jiangsu Lease Agreement for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;
“2021 Jiangsu Loading Agreement”	the agreement dated 31 December 2020 entered into between Jiangsu Paper and Jiangsu Chemical, pursuant to which Jiangsu Paper is to provide loading and unloading services to Jiangsu Chemical for its bulk carrier, which carries industrial salt, details of which are set out in this announcement;
“2021 Jiangsu Loading Annual Caps”	the maximum annual consideration to be paid for loading and unloading services under the 2021 Jiangsu Loading Agreement for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;
“2021 Jiangxi Industrial Salt Loading Agreement”	the agreement dated 31 December 2020 entered into between Jiangxi Paper and Jiangxi Chemical pursuant to which Jiangxi Paper is to provide loading and unloading services to Jiangxi Chemical for its bulk carrier, which carries industrial salt, details of which are set out in this announcement;
“2021 Jiangxi Industrial Salt Loading Annual Caps”	the maximum annual consideration to be paid for loading and unloading services under the 2021 Jiangxi Industrial Salt Loading Agreement for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;
“2021 Jiangxi Lease Agreements”	two agreements dated 31 December 2020 entered into between: (i) Jiangxi Chemical and Jiangxi Tissue; and (ii) Jiangxi Chemical and Jiangxi Paper, pursuant to which Jiangxi Chemical (as lessor) would lease certain properties to Jiangxi Tissue and Jiangxi Paper respectively (each as lessee), details of which are set out in this announcement;

“2021 Jiangxi Lease Annual Caps”	the maximum annual consideration to be received for leasing certain properties under the 2021 Jiangxi Lease Agreements for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;
“2021 Jiangxi PAC Loading Agreement”	the agreement dated 31 December 2020 entered into between Jiangxi Paper and Jiangxi Chemical, pursuant to which Jiangxi Paper is to provide loading and unloading services to Jiangxi Chemical for its containers, details of which are set out in this announcement;
“2021 Jiangxi PAC Loading Annual Caps”	the maximum annual consideration to be paid for loading and unloading services under the 2021 Jiangxi PAC Loading Agreement for each of the three financial years ending 31 December 2021, 2022 and 2023, details of which are set out in this announcement;
“2021 Lease Agreements”	the 2021 Jiangsu Lease Agreement and the 2021 Jiangxi Lease Agreements collectively;
“2021 Loading Agreements”	the 2021 Jiangxi Industrial Salt Loading Agreement, the 2021 Jiangxi PAC Loading Agreement and the 2021 Jiangsu Loading Agreement collectively;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Company”	Lee & Man Chemical Company Limited 理文化工有限公司, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Fixed Lease Payment”	the amount payable by Jiangsu Chemical (as lessee) to Jiangsu Paper (as lessor) for the right to use the third floor office space and staff quarters for a monthly rate under the 2021 Jiangsu Lease Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;

“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time;
“Jiangsu Chemical”	Jiangsu Lee & Man Chemical Limited 江蘇理文化工有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited 江蘇理文造紙有限公司, a 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 LMP;
“Jiangxi Paper”	Jiangxi Lee & Man Paper Manufacturing Limited 江西理文造紙有限公司, a foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“Jiangxi Tissue”	Jiangxi Lee & Man Tissue Manufacturing Limited 江西理文衛生用紙製造有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LMP”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMP Group”	LMP and its subsidiaries;
“PRC”	People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“ton”	a metric ton, a measurement of mass equal to 1,000 kilograms;
“Variable Lease Payment”	the amount payable by Jiangsu Chemical (as lessee) to Jiangsu Paper (as lessor) for the right to use the guestrooms under the 2021 Jiangsu Lease Agreement which varies based on the actual daily usage of the guestrooms;
“VAT”	value added tax; and
“%”	per cent.

*For illustration purposes only, the exchange rate of RMB1 = HK\$1.20 has been adopted for translating RMB into HK\$ in this announcement.*

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

Hong Kong, 4 January 2021

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