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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Lee & Man Chemical Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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LEE & MAN CHEMICAL COMPANY LIMITED

理文化化工有限公司

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

Website: www.leemanchemical.com

(Stock Code: 746)

RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



TUS Corporate
Finance Limited

A letter from the Independent Board Committee is set out on page 16 of this circular and a letter from TUS, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 17 to 31 of this circular.

A notice convening the EGM of the Company to be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 26 February 2021 at 10:30 a.m. is set out on pages 36 to 37 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please see pages 4 to 5 of this circular for measures being taken to try to prevent and control the spread of the novel coronavirus (COVID-19) at the EGM, including:

- compulsory temperature checks and health declaration
- recommended wearing of surgical face masks
- no distribution of corporate gifts and refreshments
- appropriate distancing and spacing in line with the guidance from the Hong Kong Government will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. In order to facilitate the prevention and control of the novel coronavirus (COVID-19), and to safeguard the health and safety of attending shareholders, the Company encourages shareholders to consider NOT to attend the EGM in person, and advises Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

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DEFINITIONS

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

“2018 Chemicals Purchase Agreement”	the agreement dated 28 March 2018 (and as amended by the supplemental agreement dated 4 December 2020) entered into between the Company (as supplier) and LMP (as purchaser) pursuant to which the Group would supply various industrial chemical products to the LMP Group, details of which are set out in the joint announcements of LMP and the Company dated 28 March 2018 and 4 December 2020;
“2021 Chemicals Purchase Agreement”	the agreement dated 31 December 2020 entered into between the Company (as supplier) and LMP (as purchaser) pursuant to which the Group would supply various industrial chemical products to the LMP Group;
“2021 Chemicals Purchase Annual Caps”	the maximum annual consideration to be received for the supply of various industrial chemical products by the Group to the LMP Group under the 2021 Chemicals Purchase Agreement for each of the three financial years ending 31 December 2023;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“close associates”	has the meaning ascribed thereto in the Listing Rules;
“Company”	Lee & Man Chemical Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be held on Friday, 26 February 2021 at 10:30 a.m. for Independent Shareholders to approve, if thought fit, the 2021 Chemicals Purchase Agreement, the transactions contemplated thereunder, including the 2021 Chemicals Purchase Annual Caps;
“Group”	the Company and its subsidiaries;

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a board committee comprising of Mr. Heng Victor Ja Wei and Mr. Wan Chi Keung Aaron, which will make recommendations to the Independent Shareholders in respect of the 2021 Chemicals Purchase Agreement and the transactions contemplated thereunder including the 2021 Chemicals Purchase Annual Caps;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the resolution with respect to the 2021 Chemicals Purchase Agreement and the transactions contemplated thereunder including the 2021 Chemicals Purchase Annual Caps;
“Latest Practicable Date”	2 February 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LMP”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMP Group”	LMP and its subsidiaries;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFC”	The Securities and Futures Commission of Hong Kong;
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“ton”	a metric ton, a measurement of mass equal to 1,000 kilograms;

DEFINITIONS

“TUS”	TUS Corporate Finance Limited, a corporation licensed by the SFC for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Chemicals Purchase Agreement and the transactions contemplated thereunder including the 2021 Chemicals Purchase Annual Caps;
“VAT”	value added tax; and
“%”	per cent.

For illustration purposes only, the exchange rate of RMB1 = HK\$1.19 has been adopted for translating RMB into HK\$ in this circular.

PRECAUTIONARY MEASURES FOR THE EGM

The health of the Shareholders, staff and stakeholders is of paramount importance to the Company. In view of the ongoing novel coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

- (i) compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) the Company encourages each attendee to wear a surgical face mask throughout the EGM and inside the EGM venue, and to maintain a safe distance between seats;
- (iii) no refreshment will be served, and there will be no corporate gift; and
- (iv) each attendee may be asked whether
 - a. he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and
 - b. he/she is subject to any Hong Kong Government prescribed quarantine.

Anyone who responds in the affirmative in respect of any of these questions may be denied entry into the EGM venue or be required to leave the EGM venue.

In addition, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Company encourages Shareholders NOT to attend the EGM in person, and advises Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person, by completing and returning the proxy form attached to this circular.

The form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof (as the case may be). In calculating the aforementioned notice period, no account is to be taken of any part of a day that is a public holiday.

PRECAUTIONARY MEASURES FOR THE EGM

If any Shareholder chooses not to attend the EGM in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to the registered office of the Company or to the email of the share registrar of the Company at is-enquiries@hk.tricorglobal.com. If any Shareholder has any question relating to the EGM, please contact Tricor Secretaries Limited, the Company's Hong Kong branch share registrar as follows:

Tricor Secretaries Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: is-enquiries@hk.tricorglobal.com
HK Tel: (852) 2980 1333
Fax: (852) 2810 8185

LETTER FROM THE BOARD



LEE & MAN CHEMICAL COMPANY LIMITED 理文化工有限公司

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

Website: www.leemanchemical.com

(Stock Code: 746)

Executive Directors:

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

Independent Non-executive Directors:

Mr. Heng Victor Ja Wei
Mr. Wong Kai Tung, Tony
Mr. Wan Chi Keung, Aaron *BBS JP*

Registered Office:

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

*Principal Place of Business
in Hong Kong:*

8th Floor, Liven House
61–63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

5 February 2021

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the joint announcement made by the Company and LMP dated 31 December 2020. On 31 December 2020, the Company (as supplier) entered into the 2021 Chemicals Purchase Agreement with LMP (as purchaser) to renew the 2018 Chemicals Purchase Agreement and to provide for the continuous supply of various industrial chemical products from the Company (or any other member of the Group) to LMP (or any other member of the LMP Group). Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65% issued shares of the Company as at the Latest Practicable Date, is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the executive directors of LMP and each holding 31.27% issued shares of LMP as at the date of the 2021 Chemicals Purchase Agreement.

LETTER FROM THE BOARD

Accordingly, LMP is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions under the 2021 Chemicals Purchase Agreement constitute a continuing connected transaction for the Company under the Listing Rules.

The relevant percentage ratios under the Listing Rules for the 2021 Chemicals Purchase Annual Caps are more than 5% and more than HK\$10 million. Accordingly, the 2021 Chemicals Purchase Agreement and its annual caps are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The 2021 Chemicals Purchase Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

The purpose of this circular is to i) provide you with further information in relation to the transaction contemplated under the 2021 Chemicals Purchase Agreement; ii) set out the opinions and recommendations of the Independent Board Committee and TUS; and iii) give you notice of the EGM at which the resolutions set out therein will be proposed. The EGM will be held on 26 February 2021 for the purpose of obtaining the approval from the Independent Shareholders in respect of the subject transactions.

2021 CHEMICALS PURCHASE AGREEMENT

The principal terms of the 2021 Chemicals Purchase Agreement are set out as follows:

Date: 31 December 2020

Parties: (i) LMP (as purchaser)
(ii) Company (as supplier)

Nature of Transaction: LMP (or any other member of the LMP Group) will purchase various industrial chemical products from the Company (or any other member of the Group) at a price based on the prevailing market price per ton at the time an order is placed. The Group will be responsible for the transportation of the industrial chemical products to the LMP Group while the transportation costs will be borne by the LMP Group. There is no minimum amount of industrial chemical products required to be purchased by the LMP Group. Pursuant to the 2021 Chemicals Purchase Agreement, the Group supplies a wide spectrum of industrial chemical products to the LMP Group, depending on the LMP Group's needs from time to time and the Group's evolving product range taking into account future technical enhancements and/or new development of products. The Group provides industrial chemical products to the LMP Group that include, but are not limited to caustic soda, styrene-acrylic latex surface sizing agent and polyaluminium chloride.

LETTER FROM THE BOARD

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

Payment: Delivery will be made by the Group within 3 business days of the placement of the relevant purchase order by the LMP Group specifying the type and amount of industrial chemical products required.

The relevant member of the Group will issue monthly sales invoices to the relevant member of the LMP Group and such invoices shall be settled in cash by the relevant member of the LMP Group (using its internal resources) within 30 days of the date of issue of the sales invoices.

Pricing Policy: The price and terms of payment under the 2021 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices at the relevant time when purchase orders are made provided that the prices charged by the Group shall not be higher than that available from independent third party suppliers.

In determining such prices and terms of sales to the LMP Group, the Group would in its ordinary course go through its internal procedures in order to determine the final selling price to ensure that it is fair and reasonable, on normal commercial terms and, to the extent these are connected transactions, comparable to those offered to independent third party customers.

In the usual course, the LMP Group would contact the sales team of the 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 the LMP Group's indicative purchase price.

LETTER FROM THE BOARD

The sales team of the Group would then pass on a pricing request to the marketing team of the Group. The marketing team of the Group would check against their latest pricing information gathered from the discussions with the Group's other (at least two) independent third party customers, which is regularly done on a monthly basis as well as check against a number of relevant websites which publish information on pricing (which appear to be updated on a monthly basis). These websites provide industry information such as pricing, repairs, operation rates, production capacity and data analysis. For chemical products which are commonly found in similar quality and specifications in the marketplace, such as caustic soda, the marketing team of the Group will refer to certain pricing websites it is subscribed to, which grant the Group access to databases of market pricing quotations in relation to these chemical products, for example the SCI Price Center (*prices.sci99.com*). However, for specialty chemical products, such as polyaluminium chloride and styrene-acrylic latex surface sizing agent, the pricing may not be directly comparable to market prices because the chemical formula and composition of specialty chemical products are tailored to the specific use of the customer. The exact mix and composition of the chemical formula is unique and therefore cannot be found and compared against those readily available in the market. For the pricing of such specialty chemical products, the marketing team of the Group would refer to the general price range as found in the market, on market pricing quotation sources such as *makepolo.com* (*b2b.makepolo.com*) and *Baidu* (*b2b.baidu.com*), with varied composition and quality to arrive at a reasonable profit margin for the sales of such products.

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 the Group and therefore the related prices.

LETTER FROM THE BOARD

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 the Group has at the time and relevant costs of production. It will also check with the Group's logistics department to ascertain an estimation of delivery and related transportation costs based on the proposed delivery location and details on chemicals to be delivered.

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

Internal Control:

The marketing team of the Group will conduct regular checks to review and assess whether the continuing connected transactions under the 2021 Chemicals Purchase Agreement are conducted in accordance with the terms therein. They will also obtain monthly updates on the market prices of the relevant chemical products to consider whether the price for a specific transaction is fair and reasonable and in accordance with the pricing policy.

Baseline prices for each chemical product are set each month, based on the assumption that the market is stable. On a monthly basis, before the Group makes a sale to the LMP Group, the marketing team of the Group would check the prices and terms from recent sale records with at least two of the Group's independent third party customers (for similar or comparable chemical products so far as practicable) to ensure that the terms being offered by the Group to the LMP Group are no more favourable than the terms available to independent third party customers.

The Company will continuously monitor and conduct monthly evaluations of the actual transaction amounts under the 2021 Chemicals Purchase Agreement to ensure that the actual transaction amounts will not exceed the 2021 Chemicals Purchase Annual Caps.

LETTER FROM THE BOARD

The Company will conduct semi-annual reviews of the transactions conducted under the 2021 Chemicals Purchase Agreement to: (i) consider the effectiveness of the pricing policies and the payment methods; (ii) identify the management's weaknesses; and (iii) recommend improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable.

The independent non-executive Directors will conduct an annual review of the transactions under the 2021 Chemicals Purchase Agreement pursuant to Rule 14A.55 of the Listing Rules.

The auditor of the Company will conduct an annual review of the transactions under the 2021 Chemicals Purchase Agreement pursuant to Rule 14A.56 of the Listing Rules.

HISTORICAL AMOUNTS AND ANNUAL CAPS

The aggregate transaction amounts actually incurred for the products provided under the 2018 Chemicals Purchase Agreement as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Year ended 31 December 2018	Amount Year ended 31 December 2019	Year ended 31 December 2020
2018 Chemicals Purchase Agreement			
Purchase of various industrial chemical products from the Group by the LMP Group	Actual amount incurred		
	RMB91 million (approximately HK\$108 million)	RMB81 million (approximately HK\$96 million)	RMB112 million (approximately HK\$133 million) <i>(Note 1)</i>
	Annual cap		
	RMB110 million (approximately HK\$131 million)	RMB110 million (approximately HK\$131 million)	RMB120 million (approximately HK\$143 million) <i>(Note 2)</i>

LETTER FROM THE BOARD

Notes:

- (1) This actual amount incurred is based on the unaudited financial results of the Company.
- (2) This is the revised annual cap pursuant to the supplemental agreement entered into between LMP and the Company on 4 December 2020 to amend the annual cap for the 2018 Chemicals Purchase Agreement. Further details are set out in the joint announcement of LMP and the Company dated 4 December 2020.

The actual amount incurred from 1 January 2021 up to the Latest Practicable Date amounted to approximately RMB1.9 million (approximately HK\$2.1 million).

2021 ANNUAL CAPS

The Company proposes that the 2021 Chemicals Purchase Annual Caps under the 2021 Chemicals Purchase Agreement (in respect of which Independent Shareholders' approval is proposed to be sought at the EGM) for each of the three years commencing from 1 January 2021 up to and including 31 December 2023 be as follows:

Type of Transaction	Amount		
	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023
2021 Chemicals Purchase Annual Caps	RMB175 million (approximately HK\$208 million)	RMB175 million (approximately HK\$208 million)	RMB175 million (approximately HK\$208 million)

The annual caps stated above are exclusive of VAT.

The 2021 Chemicals Purchase Annual Caps have been determined with reference to the following factors:

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

The utilisation rate of the annual caps under the 2018 Chemicals Purchase Agreement have been well over 70% for the past three years and, in particular, it reached approximately 93% for the year of 2020. This is due to the continuous growth in the production capacity of paper products of the LMP Group. As such, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards.

- (ii) LMP's anticipated consumption requirements;

The Group requested the projected consumption requirements from various LMP Group production facilities and it is noted that the anticipated consumption requirements have generally increased because, according to the disclosures set out in the annual reports of LMP for 2017 to 2019, the LMP Group has expanded its production capacity at various locations.

LETTER FROM THE BOARD

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

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

- (iv) the anticipated market price fluctuations for the period from 1 January 2021 up to and including 31 December 2023.

The Group observed record high market prices of various industrial chemical products in 2018. This was unforeseen when the historical annual caps under the 2018 Chemicals Purchase Agreement were determined. Therefore, the Directors consider that such market prices are appropriate reference points in determining the 2021 Chemical Purchase Annual Caps in order to factor in potential market price fluctuations.

In determining the new annual caps under the 2021 Chemicals Purchase Agreement, the parties have also taken into account the assumption that during the term of the 2021 Chemicals Purchase Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the LMP Group and/or the Group.

The 2021 Chemicals Purchase Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

INFORMATION ON LMP

LMP and its subsidiaries are principally engaged in large-scale paper manufacturing and specialize in the production of linerboard, corrugating medium and tissue paper.

REASONS FOR AND BENEFIT OF THE TRANSACTIONS UNDER THE 2021 CHEMICALS PURCHASE AGREEMENT

The 2021 Chemicals Purchase Agreement was negotiated and agreed on an arms' length basis between the parties and based on normal commercial terms.

The 2021 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 Group and creates synergy between both groups.

LETTER FROM THE BOARD

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

GENERAL

The Group is principally engaged in the manufacture and sale of chemical products.

Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65% issued shares of the Company at the Latest Practicable Date, is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the executive directors of LMP. As at the date of the 2021 Chemicals Purchase Agreement, Dr. Lee Man Chun Raymond and Mr. Lee Man Bun each holds 31.27% issued shares of LMP.

Therefore, LMP is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions under the 2021 Chemicals Purchase Agreement constitute a continuing connected transaction for the Company under the Listing Rules. As at the Latest Practicable Date, the Company does not hold any shares in LMP and vice versa.

Under the Listing Rules, the relevant percentage ratios for the 2021 Chemicals Purchase Annual Caps are more than 5% and more than HK\$10 million for the Company. Accordingly, the 2021 Chemicals Purchase Agreement and its annual caps will be subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in a proposed transaction must abstain from voting at the relevant general meeting on the relevant resolution(s). As at the Latest Practicable Date, Mr. Lee Man Yan and his associates are interested in 618,750,000 shares of the Company, representing approximately 75% of the shares in the Company. Mr. Lee Man Yan and his associates will abstain from voting at the EGM of the Company to approve the 2021 Chemicals Purchase Agreement.

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, have abstained from voting on the board resolutions of the Company in relation to, among others things, the 2021 Chemicals Purchase Agreement. Save as aforesaid, no other Director has any material interest in the 2021 Chemicals Purchase Agreement or was required to abstain from voting at the board meeting of the Company in relation to the same.

POLL PROCEDURE

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

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 16 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the 2021 Chemicals Purchase Agreement.

The advice of TUS to the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2021 Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole are set out on pages 17 to 31 of this circular.

The Board (including the members of the Independent Board Committee whose opinion is given after considering the advice of TUS) is of the view that the terms of the transactions contemplated under the 2021 Chemicals Purchase Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions contemplated under the 2021 Chemicals Purchase Agreement and the 2021 Chemicals Purchase Annual Caps.

FURTHER INFORMATION

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

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



LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

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

Website: www.leemanchemical.com

(Stock Code: 746)

5 February 2021

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the 2021 Chemicals Purchase Agreement, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of TUS in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the 2021 Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole, as set out in the “Letter from TUS” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by TUS in relation thereto as stated in its letter, we consider the terms of the transactions contemplated under the 2021 Chemicals Purchase Agreement to be fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions contemplated under the 2021 Chemicals Purchase Agreement and the 2021 Chemicals Purchase Annual Caps.

Yours faithfully,
Independent Board Committee

Mr. Heng Victor Ja Wei

Independent Non-executive Director

Mr. Wan Chi Keung Aaron

BBS JP

Independent Non-executive Director

LETTER FROM TUS

The following is the full text of a letter of advice from TUS Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Chemicals Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



15/F, Shanghai Commercial Bank Tower,
12 Queen's Road Central,
Central, Hong Kong

5 February 2021

*To: The Independent Board Committee and the Independent Shareholders of
Lee & Man Chemical Company Limited*

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Chemicals Purchase Agreement and the transactions contemplated thereunder (the "2021 Chemicals Transactions"), details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company to the Shareholders dated 5 February 2021 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

Reference is made to the joint announcement made by the Company and LMP dated 31 December 2020. On 31 December 2020, the Company (as supplier) entered into the 2021 Chemicals Purchase Agreement with LMP (as purchaser) to renew the 2018 Chemicals Purchase Agreement for a further term of three years and to provide for the continuous supply of various industrial chemical products from the Company (or any other member of the Group) to LMP (or any other member of the LMP Group).

Mr. Lee Man Yan, the ultimate controlling shareholder of the Company holding 65% issued shares of the Company as at the Latest Practicable Date, is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the executive directors of LMP. Dr. Lee Man Chun Raymond and Mr. Lee Man Bun each holds 31.27% issued shares of LMP as at the date of the 2021 Chemicals Purchase Agreement. Therefore, LMP is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the 2021 Chemicals Transactions constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios under the Listing Rules for the 2021 Chemicals Purchase Annual Caps are more than 5% and more than HK\$10 million, the 2021 Chemicals Purchase Agreement

LETTER FROM TUS

and its annual caps are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Wan Chi Keung Aaron and Mr. Heng Victor Ja Wei has been established to provide recommendations to the Independent Shareholders in respect of the 2021 Chemicals Purchase Agreement and the 2021 Chemicals Transactions (including the 2021 Chemicals Purchase Annual Caps). As Mr. Wong Kai Tung Tony is an independent non-executive director of both the Company and LMP, he has been excluded from the Independent Board Committee to avoid any potential conflict of interest that may arise. We, TUS Corporate Finance Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the 2021 Chemicals Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company. We have assumed that all information, facts and representations contained or referred to in the Circular, and all information, opinions and representations provided or expressed by the Directors and/or the management of the Company, for which they are solely responsible, are true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion.

We have also assumed that all views, opinions and statements of intention or belief provided or expressed by the Directors and the management, advisers and/or representatives of the Company have been arrived at after due and careful enquiries. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view

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and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Directors and the management, advisers and/or representatives of the Company nor have we conducted independent investigation into the businesses, affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the 2021 Chemicals Transactions. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the 2021 Chemicals Transactions, we have considered the following principal factors and reasons:

1. Information of the Group

The Company and its subsidiaries are principally engaged in the manufacture and sales of chemical products. The Group's operations are located in the PRC and its production facilities are based in Jiangsu Province and Jiangxi Province. As stated in the annual report of the Company for the year ended 31 December 2019 (the "Annual Report 2019"), all the Group's revenue from external customers were derived from the PRC for the two years ended 31 December 2019.

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Set out below is a summary of the financial results of the Group (i) for the two years ended 31 December 2019 as extracted from the Annual Report 2019; and (ii) for the six months ended 30 June 2019 and 2020 as extracted from the interim report of the Company for the six months ended 30 June 2020 (the “Interim Report 2020”):

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2018	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	3,476,571	3,876,777	1,381,714	1,718,656
Gross profit	1,386,114	1,815,226	443,400	682,093
Profit attributable to owners of the Company for the year/period	700,771	872,641	156,213	401,180

For the year ended 31 December 2019

Revenue of the Group amounted to approximately HK\$3,476.6 million for the year ended 31 December 2019, representing a decrease of approximately 10.3% as compared to that of approximately HK\$3,876.8 million for the year ended 31 December 2018. As disclosed in the Annual Report 2019, such decrease was primarily due to the selling prices of the Group’s primary products had fallen from the peak in early 2018 despite the overall increase in production volume of the Group’s primary products. In addition, for the year ended 31 December 2019, gross profit and profit attributable to owners of the Company decreased by approximately 23.6% and 19.7%, respectively, as compared to those for the year ended 31 December 2018. Such decrease was mainly attributable to a decrease in the Group’s gross profit margin and net profit margin for the year ended 31 December 2019 by approximately 6.9 percentage points and 2.3 percentage points, respectively, as compared to those for the year ended 31 December 2018 as a result of the fact that a comparable decline in costs of certain major raw materials had not been observed during the year.

For the six months ended 30 June 2020

Revenue of the Group amounted to approximately HK\$1,381.7 million for the six months ended 30 June 2020, representing a decrease of approximately 19.6% as compared to that of approximately HK\$1,718.7 million for the six months ended 30 June 2019. As disclosed in the Interim Report 2020, such decrease was primarily due to the drop in unit selling price across most of primary products sold during the period. In addition, for the six months ended 30 June 2020, gross profit and profit attributable to owners of the Company decreased by approximately 35.0% and 61.1%, respectively, as compared to those for the six months ended 30 June 2019. Such decrease was mainly attributable to the adverse impact on the supply chain of manufacturing industry in the PRC, including the drop in

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market prices of chemical products, by the outbreak of the novel coronavirus pandemic in early 2020 which imposed tremendous pressure on the Group's profitability.

2. Information of the LMP Group

LMP and its subsidiaries are principally engaged in large-scale paper manufacturing and specialise in the production of packaging paper (including linerboard and corrugating medium) and tissue paper. With reference to the annual report of LMP for the year ended 31 December 2019 (the "LMP Annual Report 2019"), the major source of revenue of the LMP Group was the sales of packaging paper which contributed over 80% of its revenue for the year. Furthermore, over 95% of the LMP Group's revenue for the year ended 31 December 2019 were derived from external customers in the PRC.

Set out below are the information on production capacity of the manufacturing plants of the LMP Group in 2019 as extracted from the LMP Annual Report 2019:

Location	Annual production capacity
1. Dongguan (Huangyong)	590,000 tons of paper
2. Jiangsu (Changshu)	1,120,000 tons of paper
3. Guangdong (Hongmei)	2,300,000 tons of paper and 110,000 tons of tissue paper
4. Chongqing (Yongchuan)	900,000 tons of paper, 180,000 tons of pulp and 575,000 tons of tissue paper
5. Jiangxi (Jiujiang)	720,000 tons of paper and 210,000 tons of tissue paper
6. Vietnam (Hau Giang)	550,000 tons of paper/products
7. Malaysia (Kuala Lumpur)	400,000 tons of pulp board
Total	7,655,000 tons of paper and related products

3. Reasons for and benefits of the 2021 Chemicals Transactions

As discussed under the section headed "1. Information of the Group" above, the Group is principally engaged in the manufacture and sales of chemical products. Therefore, the 2021 Chemicals Transactions are in line with the principal business of the Group. On the other hand, chemical products are the necessary inputs for the production of paper and hence, the LMP Group has to purchase various quality chemical products, either from the

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Group or other independent third party suppliers, from time to time in its ordinary and usual course of business.

As disclosed in the Letter from the Board, the sales of industrial chemical products to the LMP Group provides a long-term and steady income flow for the Group. In this respect, we understood from the Company that the Group has been supplying various industrial chemical products to the LMP Group for the production of paper and related products for over 10 years and thereby has established and maintained a close business relationship with the LMP Group. By entering into the 2021 Chemicals Purchase Agreement, the Group would be able to enjoy strong demand and stable purchase orders from the LMP Group given the sizeable business scale and market share of the LMP Group, which would in turn generate steady income for the Group from its sales of chemical products to the LMP Group on normal commercial terms.

As further mentioned in the Letter from the Board, certain production facilities of the Group are located in close proximity to the manufacturing plants of the LMP Group. It is expected that operational efficiency can be improved by reducing the lead time and transportation costs, which is in line with the Company's strategy to preserve its competitive edge over cost-effectiveness as mentioned in the Interim Report 2020.

In addition, the 2021 Chemicals Purchase Agreement was entered into as a continuation of the 2018 Chemicals Purchase Agreement to streamline the purchases and sales of chemical products between the LMP Group and the Group on a non-exclusive basis. Accordingly, it provides an additional sales channel to the Group while the Group is not obliged to transact with the LMP Group if such transaction is not in the commercial interests of the Group.

Having considered the above reasons and benefits and the terms of the 2021 Chemicals Purchase Agreement being fair and reasonable as discussed below, we concur with the Directors' view that the 2021 Chemicals Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the 2021 Chemicals Purchase Agreement

The principal terms of the 2021 Chemicals Purchase Agreement, details of which are set out under the section headed "2021 Chemicals Purchase Agreement" in the Letter from the Board, are summarised below:

Nature of transaction

LMP (or any other member of the LMP Group) will purchase various industrial chemical products from the Company (or any other member of the Group) at a price based on the prevailing market price per ton at the time an order is placed. The Group will be responsible for the transportation of the industrial chemical products to the

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LMP Group while the transportation costs will be borne by the LMP Group. There is no minimum amount of industrial chemical products required to be purchased by the LMP Group.

Pursuant to the 2021 Chemicals Purchase Agreement, the Group supplies a wide spectrum of industrial chemical products to the LMP Group, depending on the LMP Group's needs from time to time and the Group's evolving product range taking into account future technical enhancements and/or new development of products. The Group provides industrial chemical products to the LMP Group that include, but are not limited to caustic soda, styrene-acrylic latex surface sizing agent and polyaluminium chloride.

Term

3 years commencing from 1 January 2021 up to and including 31 December 2023.

Payment

Delivery will be made by the Group within 3 business days of the placement of the relevant purchase order by the LMP Group specifying the type and amount of industrial chemical products required. The relevant member of the Group will issue monthly sales invoices to the relevant member of the LMP Group and such invoices shall be settled in cash by the relevant member of the LMP Group (using its internal resources) within 30 days of the date of issue of the sales invoices.

Pricing policy

The price and terms of payment under the 2021 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices at the relevant time when purchase orders are made. In determining such prices and terms of sales to the LMP Group, the Group would in its ordinary course go through its internal procedures in order to determine the final selling price to ensure that it is fair and reasonable, on normal commercial terms and, to the extent these are connected transactions, comparable to those offered to independent third party customers.

In the usual course, the LMP Group would contact the sales team of the 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 the LMP Group's indicative purchase price. The sales team of the Group would then pass on a pricing request to the marketing team of the Group. The marketing team of the Group would check against their latest pricing information gathered from the discussions with the Group's other (at least two) independent third party customers, which is regularly done on a monthly basis as well as check against a number of relevant websites which publish information on pricing (which appear to be updated

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on a monthly basis). These websites provide industry information such as pricing, repairs, operation rates, production capacity and data analysis. For chemical products which are commonly found in similar quality and specifications in the market, such as caustic soda, the marketing team of the Group will refer to certain pricing websites it is subscribed to, which grant the Group access to databases of market pricing quotations in relation to these chemical products, for example the SCI Price Center (*prices.sci99.com*). However, for specialty chemical products, such as polyaluminium chloride and styrene-acrylic latex surface sizing agent, the pricing may not be directly comparable to market prices because the chemical formula and composition of specialty chemical products are tailored to the specific use of the customer. The exact mix and composition of the chemical formula is unique and therefore cannot be found and compared against those readily available in the market. For the pricing of such specialty chemical products, the marketing team of the Group would refer to the general price range as found in the market, on market pricing quotation sources such as *makepolo.com* (*b2b.makepolo.com*) and Baidu (*b2b.baidu.com*), with varied composition and quality to arrive at a reasonable profit margin for the sales of such products.

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 the 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 the Group has at the time and relevant costs of production. It will also check with the Group's logistics department to ascertain an estimation of delivery and related transportation costs based on the proposed delivery location and details on chemicals to be delivered. The above findings would be consolidated and reported to the Company's head of sales who would then decide on a price range for sales team to go back to the LMP Group in order to agree and finalise the selling price with the LMP Group, ensuring such sales will generate reasonable profits and on normal commercial terms for the Company.

We have obtained and reviewed the 2018 Chemicals Purchase Agreement (together with the supplemental agreement thereto) and compared the terms thereunder with those under the 2021 Chemicals Purchase Agreement. It is noted that the 2021 Chemicals Transactions will be subject to the same terms as those under the 2018 Chemicals Purchase Agreement (as amended by the supplemental agreement) save for the new proposed annual caps.

As advised by the management of the Group, the Group generally adopts the same sales process (including the pricing determination procedures) for supplying chemical products to all of its customers, irrespective of whether they are connected persons or

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independent third parties. For our due diligence purpose, we have reviewed 24 sample transactions entered into between members of the Group and members of the LMP Group pursuant to and during the term of the 2018 Chemicals Purchase Agreement and compared such transactions with certain randomly-selected transactions with independent third party customers of the Group conducted at or around the same time. Based on our review, we noted that the selling prices charged by the Group to the LMP Group were comparable with those charged by the Group to the relevant independent third party customers for the same type of chemical product(s). On the above basis, we consider that the Group had adhered to the aforesaid pricing policy during the term of the 2018 Chemicals Purchase Agreement.

In light of the above and in particular that such pricing policy will ensure the 2021 Chemicals Transactions to be conducted on terms no more favourable than those offered to other independent third party customers of the Group, we concur with the Directors' view that the terms of the 2021 Chemicals Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5. Historical amounts and the proposed annual caps

The following table sets out the historical transaction amounts incurred during the term of the 2018 Chemicals Purchase Agreement and the historical annual caps for the relevant years as extracted from the Letter from the Board:

	For the year ended 31 December 2018 RMB million	For the year ended 31 December 2019 RMB million	For the year ended 31 December 2020 RMB million
Transaction amount	91	81	112 (Note)
Annual cap	110	110	120
Utilisation rate	82.7%	73.6%	93.3%

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

As illustrated in the table above, the historical transaction amounts incurred during the three years ended 31 December 2020 amounted to approximately RMB91 million, RMB81 million and RMB112 million, respectively, which represented a high utilisation of the annual caps ranging from approximately 73.6% to 93.3% had been maintained during the term of the 2018 Chemicals Purchase Agreement. In particular, the utilisation rate reached approximately 93.3% for the year ended 31 December 2020, indicating that the annual cap for the latest financial year had almost been fully utilised. We were given to understand that the Company and LMP had taken a prudent approach in estimating the transaction amounts in the past and LMP has been expanding its production capacities over recent years.

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According to the Letter from the Board, the actual amount of the 2021 Chemicals Transactions incurred from 1 January 2021 up to the Latest Practicable Date amounted to approximately RMB1.9 million. As confirmed by the Company, no Independent Shareholders' approval is required for such amount given the relevant percentage ratios under the Listing Rules in respect of such amount are less than 5%.

With reference to the Letter from the Board, the maximum annual consideration to be received by the Group for the supply of various industrial chemical products to the LMP Group under the 2021 Chemicals Purchase Agreement (i.e. the 2021 Chemicals Purchase Annual Caps) are set at RMB175 million for each of the three years ending 31 December 2023, which represented a growth rate of approximately 45.8% as compared to the annual cap of RMB120 million for the year ended 31 December 2020 (the "Annual Cap Growth Rate"). As further stated in the Letter from the Board, the 2021 Chemicals Purchase Annual Caps have been determined with reference to the following factors:

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

The utilisation rate of the annual caps under the 2018 Chemicals Purchase Agreement have been well over 70% for the past three years and, in particular, it reached approximately 93% for the year of 2020. This is due to the continuous growth in the production capacity of paper products of the LMP Group. As such, the Directors consider that there is an imminent need for the annual caps to be adjusted upwards.

- (ii) LMP's own anticipated consumption requirements;

The Group requested the projected consumption requirements from various LMP Group production facilities and it is noted that the anticipated consumption requirements have generally increased because, according to the disclosures set out in the annual reports of LMP for 2017 to 2019, the LMP Group has expanded its production capacity at various locations.

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

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

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- (iv) the anticipated market price fluctuations for the period from 1 January 2021 up to and including 31 December 2023.

The Group observed record high market prices of various industrial chemical products in 2018. This was unforeseen when the historical annual caps under the 2018 Chemicals Purchase Agreement were determined. Therefore, the Directors consider that such market prices are appropriate reference points in determining the 2021 Chemicals Purchase Annual Caps in order to factor in potential market price fluctuations.

In assessing the fairness and reasonableness of the 2021 Chemicals Purchase Annual Caps, we have discussed with the management of the Group regarding the principal bases and assumptions adopted for determining the 2021 Chemicals Purchase Annual Caps. We were given to understand that the sales of chemical products by the Group to the LMP Group has been mainly driven by the expected demand for chemical products from the LMP Group as provided by the LMP Group.

For our due diligence purpose, we have obtained and reviewed a detailed calculation in respect of the estimated annual transaction amount for the sales of chemical products by the Group to the LMP Group during the period from 2021 to 2023 (the "Calculation"). We noted from the Calculation that such annual transaction amount, which applies equally for each of the three years ending 31 December 2023, is derived from multiplying the estimated quantities of various chemical products to be purchased by the LMP Group by the estimated selling prices of such chemical products. In determining the estimated quantities of the chemical products (except coating material), the LMP Group made reference to its historical purchase quantities from the Group in the past three years after taking into account the annual consumption requirements of different manufacturing plants of the LMP Group based on their then respective designed production capacities. In this respect, we have obtained and reviewed the annual procurement plans for chemical products of different members of the LMP Group and noted that the relevant estimated quantities in the procurement plans are consistent with the figures used in the Calculation. With respect to the estimated selling prices of the chemical products (except coating material), the Group determined the estimated selling prices based on the average of the three highest monthly selling prices of the relevant chemical products in the past three years to cater for any potential price fluctuations. In this respect, we have obtained and reviewed a table summarising the monthly selling prices of the relevant chemical products in the past three years and noted that the relevant average selling prices are consistent with the figures used in the Calculation. As for coating material, we have obtained and reviewed a table summarising the historical sales quantities sold to the LMP Group and the average selling prices in the past three years and noted that (i) the estimated sales quantities of coating material adopted in the Calculation is calculated based on the average yearly sales quantities; and (ii) the estimated selling price of coating material adopted in the Calculation is calculated based on the average selling price in 2020. It is also noted that the aggregate annual transaction amount derived from the Calculation is roughly equivalent to the 2021 Chemicals Purchase Annual Caps.

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We have also taken into account the following factors to further assess the fairness and reasonableness of the 2021 Chemicals Purchase Annual Caps:

- (i) the production capacity of the LMP Group has been increased throughout the recent years. In particular, the LMP Group's total production capacity for paper and related products was approximately 6,895,000 tons per annum in 2017 as disclosed in the annual report of LMP for the year ended 31 December 2017, whereas such total production capacity achieved approximately 7,655,000 tons per annum in 2019 as discussed above;
- (ii) we noted from the LMP Annual Report 2019 that the LMP Group recorded consistent growth in sales volume of packaging paper and tissue paper in recent years. In particular, the sales volume of packaging paper increased from approximately 5,250,000 tons for the year ended 31 December 2015 to approximately 5,628,000 tons for the year ended 31 December 2019, whereas the sales volume of tissue paper increased from approximately 48,000 tons for the year ended 31 December 2015 to approximately 663,000 tons for the year ended 31 December 2019;
- (iii) according to the data from the National Bureau of Statistics of China, the total sales volume of machine-made paper and paperboard in China amounted to approximately 125.1 million tonnes in 2019, representing a year-on-year increase of approximately 0.8%. On the other hand, the total production volume of machine-made paper and paperboard in China amounted to approximately 125.2 million tonnes in 2019, representing a year-on-year increase of approximately 3.9%. It is also noted that the monthly production volumes of machine-made paper and paperboard in China since June 2020 were significantly higher than those in the corresponding periods in 2019. In particular, the monthly production volume reached approximately 11.8 million tonnes in November 2020, which was the highest monthly production level on record;
- (iv) the PRC government and regulatory bodies in both national and provincial level have been promoting the usage of green and degradable packaging materials including paper packaging, which will benefit the corrugated paperboard industry in the long run. For instance, we noted that "Opinions on Further Strengthening Treatment of Plastic Pollution" (《關於進一步加強塑料污染治理的意見》) was published in early 2020, re-strengthening the usage of non-degradable plastics shall be prohibited in express delivery industry in key areas (e.g. Guangdong Province) by 2022 and promoting the usage of substitute materials such as paper for packaging;

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- (v) as mentioned in the interim report of LMP for the six months ended 30 June 2020, the LMP Group is of the view that the novel coronavirus epidemic in China is under control at present and the market is demonstrating a recovery in demand following gradual resumption of production and normalised economic activities; and
- (vi) for illustration purposes, the 2021 Chemicals Purchase Annual Caps of RMB175 million (approximately HK\$208 million) accounts for approximately 6.0% of the Group's total revenue for the year ended 31 December 2019. Given that it represents a relatively small portion of the Group's total revenue from a historical perspective, the Directors consider, and we concur, that the Group would have ample capacity to handle the 2021 Chemicals Transactions under the proposed 2021 Chemicals Purchase Annual Caps.

Based on the above, we are of the view that the Annual Cap Growth Rate is justifiable and the 2021 Chemicals Purchase Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control measures

We have discussed with and understood from the Company that it has adopted the following internal control measures to ensure that the 2021 Chemicals Transactions will be conducted on normal commercial terms and in accordance with the 2021 Chemicals Purchase Agreement:

- (i) upon receiving a pricing request from the LMP Group for chemical products, the marketing department of the Group will check against the prices and terms of recent sales with at least two independent third party customers (for similar or comparable chemical products so far as practicable) as well as check against a number of relevant websites which publish latest pricing information from time to time (please refer to the paragraph headed "4. Principal terms of the 2021 Chemicals Purchase Agreement – Pricing policy" above for details);
- (ii) before entering into any particular transaction with the LMP Group, the head of sales department of the Group will review the relevant findings on pricing and determine the final selling price with the LMP Group to ensure that the terms of the transaction are fair and reasonable and no more favourable than those available to independent third party customers of the Group;
- (iii) the senior management of the Group will conduct regular checks to review and assess whether the 2021 Chemicals Transactions are conducted in compliance with the aforesaid pricing policy and in accordance with the terms of the 2021 Chemicals Purchase Agreement;

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- (iv) the finance department of the Company will closely monitor the transaction amounts to be incurred under the 2021 Chemicals Purchase Agreement to ensure that the 2021 Chemicals Purchase Annual Caps will not be exceeded and, when there is any possibility that the transaction amounts will exceed the 2021 Chemicals Purchase Annual Caps, the finance department will report to the management of the Group in a timely manner; and
- (v) the Group has engaged an independent professional advisor to provide internal audit services and to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group and the relevant risk management report and internal control report will be submitted to the Board and the Audit Committee for review at least once a year.

We noted from the above that the Company has adopted a set of internal control measures to obtain the prevailing market prices and perform regular reviews to ensure that the 2021 Chemicals Transactions will be conducted on normal commercial terms and in accordance with the 2021 Chemicals Purchase Agreement. Moreover, as mentioned under the section headed “4. Principal terms of the 2021 Chemicals Purchase Agreement” above, we consider that the Group had adhered to the aforesaid pricing policy in the past based on the sample transactions reviewed.

Furthermore, we noted from the annual report of the Company for each of the two years ended 31 December 2018 and 2019 that the independent non-executive Directors reviewed the historical continuing connected transactions under the 2018 Chemicals Purchase Agreement conducted during the respective financial year and confirmed that such transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. Besides, the auditor of the Company also confirmed to the Directors that nothing has come to its attention that causes it to believe that such continuing connected transactions (i) have not been approved by the Board; (ii) were not, in all material aspects, in accordance with the pricing policies of the Company for transactions involving the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; or (iv) have exceeded the annual cap as set by the Company. The 2021 Chemicals Transactions will continue to be subject to the relevant annual review requirements pursuant to Rules 14A.55 to 14A.59 of the Listing Rules.

Taking the above into account, we are of the view that there are appropriate measures in place to govern the conduct of the 2021 Chemicals Transactions, thereby safeguarding the interests of the Independent Shareholders.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the 2021 Chemicals Purchase Agreement (including the 2021 Chemicals Purchase Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and that the 2021 Chemicals Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2021 Chemicals Purchase Agreement (including the 2021 Chemicals Purchase Annual Caps).

Yours faithfully,

For and on behalf of

TUS Corporate Finance Limited

Michael Ngai

Managing Director

Clark Ngai

Vice President

Mr. Michael Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 15 years of experience in the finance and investment banking industry.

Mr. Clark Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 10 years of experience in the finance and investment banking industry.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. DISCLOSURE OF INTERESTS**1. Interests and short positions of Directors and chief executives in the share capital of the Company and its associated corporation**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were taken or deemed to have under such provisions of the SFO); or (ii) recorded in register required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

Directors’ interests in the Shares

Name of Director	Number of Shares interest (Long Position)	Capacity	Approximate % of Shares
Lee Man Yan	536,250,000	Beneficial Owner	65%

Details of share options held by a Director

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the

meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or the Model Code.

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

As at the Latest Practicable Date, so far as was known to the Directors, shareholders (other than Directors and chief executives of the Company) who had interests and short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Notifiable interests in Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate % of interest in the issued share capital of the Company
Ms. Kwok Ching Yee Lorinda	Interest of Spouse	536,250,000	65%
Dr. Lee Wan Keung Patrick	Beneficial Owner	82,500,000	10%

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any person (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

2. LITIGATION

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

3. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's profit warning announcement dated 17 July 2020, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors have entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which will not expire or may not be terminated by the Group within one (1) year without the payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

None of the Directors and their respective close associates were interested in any business apart from the Group's business which competed or was likely to compete, either directly or indirectly, with the business of the Group as at the Latest Practicable Date.

6. EXPERT

- (a) The following is the qualification of TUS, which has given its opinion or advice which is contained in this circular:

Name	Qualification
TUS Corporate Finance Limited	a corporation licensed by the SFC for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, TUS did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2019, being the date up to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) TUS has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

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

- (a) None of the Directors have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date up to which the latest published audited financial statements of the Group were made up.
- (b) None of the Directors are materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ho Chun Ho Jason, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 8th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at 8th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong, from 11 February 2021 for a period of 14 days up to 25 February 2021:

- (a) this circular;
- (b) the Articles of Association of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (d) the letter from TUS, the text of which is set out on pages 17 to 31 of this circular;
- (e) the written consent of TUS referred to in the section headed "Expert" in this Appendix;
- (f) the 2021 Chemicals Purchase Agreement; and
- (g) the 2018 Chemicals Purchase Agreement and the supplemental agreement entered into between LMP and the Company on 4 December 2020 to amend the annual cap for the 2018 Chemicals Purchase Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

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

Website: www.leemanchemical.com

(Stock Code: 746)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lee & Man Chemical Company Limited (the “Company”) will be held at SPRG office, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 26 February 2021 at 10:30 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the supply agreement of industrial chemical products (the “2021 Chemicals Purchase Agreement”) dated 31 December 2020 between Lee & Man Chemical Company Limited (the “Company”) and Lee & Man Paper Manufacturing Limited (“LMP”) pursuant to which the Company sells, and procures other relevant member(s) of the Company’s group to sell, industrial chemical products to LMP (or LMP’s group companies), and its annual caps and the transactions contemplated thereunder be and are hereby approved and any one director of the Company be and are hereby authorised to exercise all the powers of the Company and take all other steps as they may in their opinion to be desirable or necessary in connection with the 2021 Chemicals Purchase Agreement and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the foregoing.”

By order of the board of
Lee & Man Chemical Company Limited
Ho Chun Ho Jason
Company Secretary

Hong Kong, 5 February 2021

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. Where there are joint registered holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.
4. The form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM, and in default the form of proxy shall not be treated as valid.
5. The register of members of the Company will be closed from Tuesday, 23 February 2021 to Friday, 26 February 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 22 February 2021.
6. The completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. A form of proxy for use at the EGM is enclosed.
8. Please see pages 4 to 5 of the circular of the Company dated 5 February 2021 for measures being taken to try to prevent and control the spread of the novel coronavirus (COVID-19) at the EGM, including:
 - compulsory temperature checks and health declaration
 - recommended wearing of surgical face masks
 - no distribution of corporate gifts and refreshments
 - appropriate distancing and spacing in line with the guidance from the Hong Kong Government will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding
9. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. In order to facilitate the prevention and control of the novel coronavirus (COVID-19), and to safeguard the health and safety of attending shareholders, the Company encourages shareholders to consider NOT to attend the EGM in person, and advises Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.
10. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further notice on such measures as appropriate.

At the date hereof this notice, 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 BBS JP and Mr. Heng Victor Ja Wei.