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理文造紙有限公司*
Lee & Man Paper Manufacturing Limited
(Incorporated in the Cayman Islands and its members' liability is limited)
(Stock Code: 2314)



LEE & MAN CHEMICAL COMPANY LIMITED
理文化工有限公司
(Incorporated in the Cayman Islands and its members' liability is limited)
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(Stock Code: 746)

JOINT ANNOUNCEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

2024 Jiangsu Steam and Electricity Agreement

On 29 December 2023, Jiangsu Paper and Jiangsu Chemical entered into the 2024 Jiangsu Steam and Electricity Agreement in connection with the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical. The 2024 Jiangsu Steam and Electricity Agreement has a term of three years commencing from 1 January 2024 up to and including 31 December 2026.

2024 Jiangxi Steam and Electricity Agreement

On 29 December 2023, Jiangxi Chemical and LMP entered into the 2024 Jiangxi Steam and Electricity Agreement in connection with the supply of steam and electricity by Jiangxi Chemical to the LMP Group. The 2024 Jiangxi Steam and Electricity Agreement has a term of three years commencing from 1 January 2024 up to and including 31 December 2026.

2024 Chemicals Purchase Agreement

On 29 December 2023, LMP and LMC entered into the 2024 Chemicals Purchase Agreement pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group. The 2024 Chemicals Purchase Agreement has a term of three years commencing from 1 January 2024 up to and including 31 December 2026.

* For identification purposes only

2024 Loading Agreement

On 29 December 2023, Jiangxi Paper, Jiangxi Chemical, Jiangsu Paper and Jiangsu Chemical entered into the 2024 Loading Agreement whereby (i) Jiangxi Paper is to provide loading and unloading services to Jiangxi Chemical for its bulk carriers which carry industrial salt and other containers and (ii) Jiangsu Paper is to provide loading and unloading services to Jiangsu Chemical for its bulk carriers which carry industrial salt and coal. The 2024 Loading Agreement has a term of three years commencing from 1 January 2024 up to and including 31 December 2026.

LISTING RULE IMPLICATIONS

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of LMC and Jiangsu Paper and Jiangxi Paper are both indirect wholly-owned subsidiaries of LMP. Accordingly, the transactions contemplated under the 2024 Continuing Connected Transaction Agreements constitute continuing connected transactions for LMP and LMC under Chapter 14A of the Listing Rules.

LMP

In respect of LMP, the relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps, the 2024 Chemicals Purchase Annual Caps and the 2024 Loading Annual Caps are more than 0.1% but less than 5%, respectively. Accordingly, each of the 2024 Continuing Connected Transaction Agreements and the respective annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, the relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps and the 2024 Chemicals Purchase Annual Caps are more than 5%, respectively. Accordingly, each of the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement and their respective annual caps will be subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the relevant percentage ratios under the Listing Rules for the 2024 Loading Annual Caps are more than 0.1% but less than 5% for LMC, the 2024 Loading Agreement and the annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent board committee of LMC, comprising Mr. Wan Chi Keung Aaron, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk, has been established by LMC to provide recommendation to the independent shareholders of LMC in respect of the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement.

Lego Corporate Finance Limited has been appointed as the independent financial adviser of LMC to advise the independent board committee of LMC and the independent shareholders of LMC in this regard.

The extraordinary general meeting of LMC will be convened and held for the independent shareholders of LMC to consider and, if thought fit, approve the continuing connected transactions contemplated under the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement.

Details in connection with the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement (including the respective annual caps), the recommendation of the independent board committee of LMC and the advice of the independent financial adviser of LMC will be included in the circular to be issued by LMC. The aforesaid circular together with the notice of LMC extraordinary general meeting is expected to be despatched to the shareholders of LMC on or before 9 February 2024 (which is more than 15 business days after the publication of this joint announcement to allow sufficient time for LMC to prepare and finalise information to be included in the circular).

THE 2024 CONTINUING CONNECTED TRANSACTION AGREEMENTS

Background

Reference is made to the joint announcements of LMP and LMC dated 28 March 2018, 4 December 2020, 31 December 2020 and 25 April 2022 and the announcement of LMC dated 4 January 2021. As the 2021 Continuing Connected Transaction Agreements will expire after 31 December 2023, the relevant members of the LMP Group and the LMC Group entered into the 2024 Continuing Connected Transaction Agreements to renew the aforementioned agreements for a term of three years from 1 January 2024 up to and including 31 December 2026.

The 2024 Continuing Connected Transaction Agreements, which the Directors of LMP and LMC consider to be distinctly separate and different in nature with one another given the nature of these transactions, will constitute continuing connected transactions for LMP and LMC under Chapter 14A of the Listing Rules and further details of these agreements are set out below.

1. 2024 Jiangsu Steam and Electricity Agreement

Date:	29 December 2023
Parties:	(i) Jiangsu Paper (as supplier) (ii) Jiangsu Chemical (as purchaser)
Nature of Transaction:	<p>Jiangsu Paper will generate and supply steam and electricity to Jiangsu Chemical.</p> <p>The coal for generating the steam and electricity shall be supplied by Jiangsu Chemical to Jiangsu Paper in advance. The quantity of coal to be supplied by Jiangsu Chemical would depend on the monthly actual consumption of steam and electricity of Jiangsu Chemical.</p> <p>Jiangsu Chemical will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. Jiangsu Chemical will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.</p>
Term of Agreement:	3 years commencing from 1 January 2024 up to and including 31 December 2026.
Payment:	Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by Jiangsu Chemical (using its internal financial resources) within 14 days after the end of each month based on actual consumption of the amount of steam and electricity but subject to the limits of the 2024 Jiangsu Steam and Electricity Annual Caps.
Pricing Policy:	The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangsu Paper, plus a margin of not more than 25%.

Jiangsu Chemical shall reimburse Jiangsu Paper all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangsu Paper (which shall be based on actual amounts incurred).

The 2024 Jiangsu Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of LMC and LMP against, among others, those available from government authorities in the Jiangsu province to determine the reasonableness and competitiveness of such pricing.

2. 2024 Jiangxi Steam and Electricity Agreement

Date: 29 December 2023

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

Nature of Transaction: Jiangxi Chemical will generate and supply steam and electricity to LMP (or any other member of the LMP Group).

The coal for generating the steam and electricity shall be supplied by the LMP Group to Jiangxi Chemical in advance. The quantity of coal to be supplied by the LMP Group would depend on the monthly actual consumption of the steam and electricity of the LMP Group.

The LMP Group will provide the steam pipelines, electrical cables and relevant facilities to transfer steam and electricity to its production facilities. The LMP Group will also be responsible for the maintenance and repairs of such steam pipelines, electrical cables and relevant facilities.

Term of Agreement: 3 years commencing from 1 January 2024 up to and including 31 December 2026.

Payment: Steam and electricity service fees and all related charges and fees such as governmental regulatory charges will be paid in cash by the LMP Group (using its internal financial resources) within 14 days after the end of each month based on actual consumption amount of steam and electricity but subject to the limits of the 2024 Jiangxi Steam and Electricity Annual Caps.

Pricing Policy: The steam and electricity service fees are based on the actual supply costs (including but not limited to overheads and the financing costs of the electricity and steam generating facilities) of Jiangxi Chemical, plus a margin of not more than 25%.

LMP shall reimburse Jiangxi Chemical all the charges and fees which may be imposed by governmental or regulatory authorities (if any) in the production and supply of steam and electricity by Jiangxi Chemical (which shall be based on actual amounts incurred).

The 2024 Jiangxi Steam and Electricity Agreement was negotiated and determined on an arm's length basis based on normal commercial terms. The prices for steam and electricity have also been compared by the management of LMC and LMP against, among others, those available from government authorities in the Jiangxi province to determine the reasonableness and competitiveness of such pricing.

3. 2024 Chemicals Purchase Agreement

Date: 29 December 2023

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

Nature of Transaction: LMP (or any other member of the LMP Group) will purchase various industrial chemical products from LMC (or any other member of the LMC Group) by placing purchase order(s).

The LMC Group will be responsible for the transportation of the industrial chemical products to the LMP Group while the transportation costs will be borne by the LMP Group.

There is no minimum amount of industrial chemical products required to be purchased by the LMP Group but the aggregate amount of all purchase orders placed by LMP Group shall not exceed the 2024 Chemicals Purchase Annual Caps.

Term of Agreement: 3 years commencing from 1 January 2024 up to and including 31 December 2026.

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

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

Pricing Policy and Determination Procedures: The price and terms of payment under the 2024 Chemicals Purchase Agreement will be determined with reference to the prevailing market prices per ton of the type of industrial chemical products required at the relevant time when purchase orders are made provided that the prices charged by the LMC Group shall not be higher than those available to LMP Group from independent third party suppliers. The management staff of the relevant member of the LMP Group will monitor and take samples of the market prices for relevant industrial chemical products available from at least two independent third party suppliers on a monthly basis to ensure prices charged by the LMC Group do not exceed those of independent third party suppliers.

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

The sales team of LMC Group would then pass on a pricing request to the marketing team of LMC Group. The marketing team of the LMC Group would check against their latest pricing information gathered from the discussions with LMC Group's other (at least two) independent third party customers, which is regularly done on a monthly basis as well as check against with a number of relevant websites which publish information on pricing (which appear to be updated on a monthly basis). 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 LMC Group will refer to certain pricing websites it subscribed to, which grant the LMC 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 LMC 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 LMC Group and therefore the related prices.

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

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

4. 2024 Loading Agreement

Date:	29 December 2023
Parties:	(i) Jiangxi Paper (ii) Jiangxi Chemical (iii) Jiangsu Paper (iv) Jiangsu Chemical
Nature of Transaction:	(1) Jiangxi Paper will provide loading and unloading services to Jiangxi Chemical for its bulk carriers which carry industrial salt and other containers. (2) Jiangsu Paper will provide loading and unloading services to Jiangsu Chemical for its bulk carriers which carry industrial salt and coal.
Term of Agreement:	3 years commencing from 1 January 2024 up to and including 31 December 2026.

Payment:

- (1) In respect of the services to be provided by Jiangxi Paper, Jiangxi Paper will provide a bill to Jiangxi Chemical at the beginning of each month regarding the service fee for the previous month.
- (2) In respect of the services to be provided by Jiangsu Paper, Jiangsu Paper will provide a bill to Jiangsu Chemical at the end of each month regarding the service fee for that month.

Upon confirmation by both parties of the bill, the bill will be issued and the payment of the loading and unloading fee for each month shall be made within 30 days of receiving the invoice, subject to the 2024 Loading Annual Caps.

Pricing Policy:

- (1) The loading and unloading fees in relation to industrial salts, coal and containers under the 2024 Loading Agreement are determined by reference to the cost for LMP Group to provide such services plus approximately a 20% to 25% margin and were based on normal commercial terms after arm's length negotiation. The costs of loading and unloading industrial salts, coal and containers include berthing charges, mooring and unmooring charges, grab crane usage, unloading to truck fee, pier supervisor labour costs and stowage clearance fee.
- (2) The service fees for loading and unloading in relation to industrial chemical products under the 2024 Loading Agreement are determined by reference to the cost for LMP Group to provide such services and were based on normal commercial terms after arm's length negotiation. 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. The costs of loading and unloading industrial chemical products include container yard transportation charges, crane charges, drayage and loading and unloading fees.

- (3) For loading and unloading services to be provided by Jiangxi Paper in Jiangxi province, 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 2024 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 LMC 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.

- (4) For loading and unloading services to be provided by Jiangsu Paper in Jiangsu province, the loading and unloading fees under the 2024 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.

Considering the pricing policies as outlined above and that the respective transactions contemplated under the 2024 Continuing Connected Transaction Agreements will be subject to annual review by the independent non-executive Directors and the auditors of LMP and LMC, respectively, (i) the Directors (including the independent non-executive Directors) of LMP believe that the pricing policy (including the pricing determination procedures) outlined above are sufficient to ensure that the respective transactions contemplated under the 2024 Continuing Connected Transaction Agreements will be conducted on normal commercial terms or better and not prejudicial to the interests of LMP and its independent shareholders; and (ii) the Directors of LMC (for the 2024 Loading Agreement, including the independent non-executive Directors of LMC but for the other 2024 Continuing Connected Transaction Agreements, excluding the LMC Independent Directors whose views will be given after considering the advice from the independent financial adviser) believe that the pricing policy (including the pricing determination procedures) outlined above are sufficient to ensure that the respective transactions contemplated under the 2024 Continuing Connected Transaction Agreements will be conducted on normal commercial terms or better and not prejudicial to the interests of LMC and its independent shareholders.

HISTORICAL AMOUNTS AND ANNUAL CAPS

The aggregate transaction amounts actually incurred for the services or products provided under the 2021 Jiangsu Steam and Electricity Agreement, the 2021 Jiangxi Steam and Electricity Agreement, the 2021 Chemicals Purchase Agreement and the 2021 Loading Agreements as compared against the related annual caps for the relevant periods are set out below:

Transaction type	Amount		
	Year ended 31 December 2021	Year ended 31 December 2022	Year ending 31 December 2023
2021 Jiangsu Steam and Electricity Agreement			
	Actual amount incurred		
Services to generate steam and electricity by Jiangsu Paper to Jiangsu Chemical	RMB69 million (approximately HK\$75 million)	RMB73 million (approximately HK\$79 million)	RMB65 million (approximately HK\$70 million) <i>(Note 1)</i>
	Annual cap		
	RMB80 million (approximately HK\$86 million)	RMB80 million (approximately HK\$86 million)	RMB80 million (approximately HK\$86 million)

2021 Jiangxi Steam and Electricity Agreement

	Actual amount incurred		
Services to generate steam and electricity by Jiangxi Chemical to LMP Group	RMB72 million (approximately HK\$78 million)	RMB60 million (approximately HK\$65 million)	RMB56 million (approximately HK\$60 million) <i>(Note 1)</i>
	Annual cap		
	RMB100 million (approximately HK\$108 million)	RMB105 million (approximately HK\$113 million)	RMB110 million (approximately HK\$119 million)
Transaction type	Amount		
	Year ended 31 December 2021	Year ended 31 December 2022	Year ending 31 December 2023

2021 Chemicals Purchase Agreement

	Actual amount incurred		
Purchase of various industrial chemical products from LMC Group by LMP Group	RMB154 million (approximately HK\$166 million)	RMB155 million (approximately HK\$167 million)	RMB148 million (approximately HK\$160 million) <i>(Note 1)</i>
	Annual cap		
	RMB175 million (approximately HK\$189 million)	RMB320 million (approximately HK\$346 million) <i>(Note 2)</i>	RMB320 million (approximately HK\$346 million) <i>(Note 2)</i>

2021 Loading Agreements

Actual amount incurred

Provision of loading and unloading services by Jiangsu Paper and Jiangxi Paper	RMB5 million (approximately HK\$5 million)	RMB4 million (approximately HK\$4 million)	RMB4 million (approximately HK\$4 million) <i>(Note 1)</i>
		Annual cap <i>(Note 3)</i>	
	RMB5 million (approximately HK\$5 million)	RMB5 million (approximately HK\$5 million)	RMB5 million (approximately HK\$5 million)

Notes:

- (1) The actual amount incurred for the eleven months ended 30 November 2023.
- (2) These are the revised annual caps pursuant to the supplemental agreement entered into between LMP and LMC on 25 April 2022 to amend the annual caps for the 2021 Chemicals Purchase Agreement. Further details are set out in the joint announcement of LMP and LMC dated 25 April 2022.
- (3) These are the combined annual caps under the 2021 Loading Agreements entered into between members of the LMP Group and LMC Group on 31 December 2020.

2024 ANNUAL CAPS

The proposed 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps, 2024 Chemicals Purchase Annual Caps and the 2024 Loading Annual Caps for each of the three years commencing from 1 January 2024 up to and including 31 December 2026 are as follows:

Type of Transaction	Amount		
	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026
2024 Jiangsu Steam and Electricity Annual Caps	RMB120 million (approximately HK\$130 million)	RMB130 million (approximately HK\$140 million)	RMB130 million (approximately HK\$140 million)
2024 Jiangxi Steam and Electricity Annual Caps	RMB130 million (approximately HK\$140 million)	RMB135 million (approximately HK\$146 million)	RMB135 million (approximately HK\$146 million)
2024 Chemicals Purchase Annual Caps	RMB390 million (approximately HK\$421 million)	RMB390 million (approximately HK\$421 million)	RMB390 million (approximately HK\$421 million)
2024 Loading Annual Caps	RMB15 million (approximately HK\$16 million)	RMB16 million (approximately HK\$17 million)	RMB17 million (approximately HK\$18 million)

The annual caps stated above are exclusive of VAT.

2024 Jiangsu Steam and Electricity Annual Caps

The 2024 Jiangsu Steam and Electricity Annual Caps have been determined with reference to (i) the amount of historical transactions between Jiangsu Paper and Jiangsu Chemical as set out above; (ii) Jiangsu Paper's own anticipated consumption requirements; (iii) the spare steam and electricity capacity of Jiangsu Paper available for Jiangsu Chemical's requirements; (iv) the production plans and the related actual/estimated requirements for steam and electricity of Jiangsu Chemical and Jiangsu Paper for the period from 1 January 2024 up to and including 31 December 2026; and (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station for steam and electricity).

In determining the 2024 Jiangsu Steam and Electricity Annual Caps, the parties have also taken into account the expected increase in the production volume and utilisation rate of the production facilities of Jiangsu Chemical, which are expected to increase the demand for steam and electricity.

2024 Jiangxi Steam and Electricity Annual Caps

The 2024 Jiangxi Steam and Electricity Annual Caps have been determined with reference to (i) the amount of historical transactions between LMP Group and Jiangxi Chemical as set out above; (ii) Jiangxi Chemical's own anticipated consumption requirements; (iii) the spare steam and electricity capacity of Jiangxi Chemical available for the LMP Group's requirements; (iv) the production plans and the related actual/estimated steam and electricity requirements of the LMP Group and Jiangxi Chemical for the period from 1 January 2024 up to and including 31 December 2026; and (v) the estimated unit price of steam and electricity services to be provided (including the operational costs for running the power station of steam and electricity).

In determining the 2024 Jiangxi Steam and Electricity Annual Caps, the parties have also taken into account the LMP Group's demand for steam and electricity to increase compared with previous years because of the expected increase in the production volume and utilisation rate of its production facilities.

2024 Chemicals Purchase Annual Caps

The 2024 Chemicals Purchase Annual Caps have been determined with reference to (i) the value of historical sales between members of the LMC Group and the LMP Group, (ii) LMP's anticipated consumption requirements, (iii) the production capacity and estimated quantity of industrial chemical products to be manufactured by the LMC Group and (iv) the anticipated market price fluctuations for the period from 1 January 2024 up to and including 31 December 2026.

2024 Loading Annual Caps

The 2024 Loading Annual Caps were based on (i) the amount of historical transactions between Jiangxi Paper and Jiangxi Chemical and between Jiangsu Paper and Jiangsu Chemical as set out above; (ii) the anticipated requirements of Jiangsu Chemical and Jiangxi Chemical 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.

In determining the respective proposed new annual caps under each of the 2024 Continuing Connected Transaction Agreements, the parties have also taken into account the assumption that during the respective terms of the 2024 Continuing Connected Transaction Agreements, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the LMP Group and/or the LMC Group.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement

Each of the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement was negotiated and agreed on an arms' length basis between the parties and based on normal commercial terms.

LMP and LMC have production plants located in both the provinces of Jiangsu and Jiangxi which require electricity and steam for manufacturing their paper and chemical products respectively. To facilitate the production process in Jiangsu and Jiangxi, LMP and LMC had (through their respective PRC subsidiaries) constructed their own power stations to supply the required electricity and steam for their production plants located in both Jiangsu and Jiangxi.

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

The proximity of the power stations to the relevant operations mean that both LMC and LMP would be able to obtain electricity and steam at a lower price from each other than from other third party suppliers. Supplies of steam and electricity from independent external suppliers (including the PRC governmental bodies) will not be as stable as compared to supplies from the power stations of LMC and LMP. As the production plants of LMC and LMP are operated on a twenty-four hour basis, any power shortage or power failure would adversely affect the production lines and reduce the efficiency of manufacturing. The 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement will therefore minimise the risk of production interruption by providing a consistent and stable supply of steam and electricity to the production plants of LMC and LMP located in Jiangsu and Jiangxi.

This arrangement will also help both LMC and LMP to improve the utilisation of their respective power stations as the supply of steam and electricity under the 2024 Jiangsu Steam and Electricity Agreement and 2024 Jiangxi Steam and Electricity Agreement represents surplus steam and electricity generated and produced at the respective power stations. The overall operation efficiency of each of their power stations in Jiangsu and Jiangxi will be enhanced as a result of the economies of scale mainly attributable to the expected decrease in overheads, investment and financing costs of the power station with the increased production volume.

The Directors (including the independent non-executive Directors of LMP and excluding the LMC Independent Directors whose views will be given after considering the advice from the independent financial adviser) of each of LMP and LMC are of the view that each of the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement is in the ordinary and usual course of LMP's and LMC's businesses. The Directors (including the independent non-executive Directors of LMP and excluding the LMC Independent Directors whose views will be given after considering the advice from the independent financial adviser) are also of the view that the terms of each of the 2024 Jiangsu Steam and Electricity Agreement and the 2024 Jiangxi Steam and Electricity Agreement are fair and reasonable, on normal commercial terms and are in the interests of each of LMP, LMC and their respective shareholders as a whole.

2024 Chemicals Purchase Agreement

The 2024 Chemicals Purchase Agreement will secure a long-term and steady supply of industrial chemical products to ensure fulfilment of the production needs of LMP Group. The sale of industrial chemical products provides a long-term and steady income flow for the LMC Group and creates synergy between both groups.

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

The Directors (including the independent non-executive Directors of LMP and excluding the LMC Independent Directors whose views will be given after considering the advice from the independent financial adviser) of each of LMP and LMC are of the view that the 2024 Chemicals Purchase Agreement is in the ordinary and usual course of LMP's and LMC's businesses. The Directors (including the independent non-executive Directors of LMP and excluding the LMC Independent Directors whose views will be given after considering the advice from the independent financial adviser) are also of the view that the terms of the 2024 Chemicals Purchase Agreement are fair and reasonable, on normal commercial terms and are in the interests of each of LMP, LMC and their respective shareholders as a whole.

2024 Loading Agreement

The 2024 Loading Agreement was entered into with a view for the various subsidiaries of LMC to take advantage of the strategic location of LMP Group's docks in Jiangsu and Jiangxi provinces. The proximity advantage of LMP Group's docks offers a cost-efficient and cost-saving arrangement for LMC's business operations. By obtaining loading and unloading services from the LMP Group, the efficiency of LMC's business operations will be optimised because the relevant LMP Group's docks possess the necessary capacity and capability to offer sufficient and reliable loading and unloading services for LMC and also because of the familiarity of the relevant LMP Group's staff with LMC's business operations.

The Directors (including the independent non-executive Directors) of each of LMP and LMC are of the view that the 2024 Loading Agreement is in the ordinary and usual course of LMP's and LMC's businesses. The Directors (including the independent non-executive Directors) of each of LMP and LMC are also of the view that the terms of the 2024 Loading Agreement are fair and reasonable, on normal commercial terms and are in the interests of each of LMP, LMC and their respective shareholders as a whole.

GENERAL

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

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

Jiangsu Chemical and Jiangxi Chemical are both indirect wholly-owned subsidiaries of LMC. Jiangsu Paper and Jiangxi Paper are both indirect wholly-owned subsidiaries of LMP.

Mr. Lee Man Yan, the ultimate controlling shareholder of LMC holding 65% issued shares of LMC as at the date of this joint announcement, 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 approximately of 31.5% and 30.2%, respectively, issued shares of LMP as at the date of this joint announcement.

Therefore, Jiangsu Chemical, Jiangxi Chemical and LMC are connected persons of LMP under Chapter 14A of the Listing Rules, whilst Jiangsu Paper, Jiangxi Paper and LMP are connected persons of LMC under Chapter 14A of the Listing Rules.

Accordingly, the transactions contemplated under the 2024 Continuing Connected Transaction Agreements constitute continuing connected transactions for both LMP and LMC under Chapter 14A of the Listing Rules. LMP does not hold any shares in LMC and vice versa as at the date of this joint announcement.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun (who are Directors of LMP and are associates of Mr. Lee Man Yan) had abstained from voting on the board resolutions of LMP in relation to the 2024 Continuing Connected Transaction Agreements. Ms. Wai Siu Kee and Mr. Lee Man Yan (who are Directors of LMC and are associates of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun) had abstained from voting on the board resolutions of LMC in relation to the 2024 Continuing Connected Transaction Agreements.

Save as aforesaid, no other Director of LMP or LMC has any material interest in the 2024 Continuing Connected Transaction Agreements or was required to abstain from voting at the board meetings of LMP and LMC in relation to the same.

To avoid the perception of conflict of interest, Mr. Li King Wai Ross (a Director of LMP and brother-in-law of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Lee Man Yan) and Mr. Lee Jude Ho Chung (a Director of LMP and whose grandfather is the younger brother of the grandfather of Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Lee Man Yan), had voluntarily abstained from voting on the board resolutions of LMP in relation to the 2024 Continuing Connected Transaction Agreements.

LISTING RULES IMPLICATIONS

LMP

In respect of LMP, the relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps, the 2024 Chemicals Purchase Annual Caps and the 2024 Loading Annual Caps are more than 0.1% but less than 5%, respectively. Accordingly, each of the 2024 Continuing Connected Transaction Agreements and the respective annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, the relevant percentage ratios under the Listing Rules for each of the 2024 Jiangsu Steam and Electricity Annual Caps, 2024 Jiangxi Steam and Electricity Annual Caps and the 2024 Chemicals Purchase Annual Caps are more than 5%, respectively. Accordingly, each of the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement and their respective annual caps will be subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the relevant percentage ratios under the Listing Rules for the 2024 Loading Annual Caps are more than 0.1% but less than 5%, the 2024 Loading Agreement and the annual caps thereunder will be subject to the reporting, announcement and annual review requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent board committee of LMC, comprising Mr. Wan Chi Keung Aaron, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk, has been established by LMC to provide recommendation to the independent shareholders of LMC in respect of the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement.

Lego Corporate Finance Limited has been appointed as the independent financial adviser of LMC to advise the independent board committee of LMC and the independent shareholders of LMC in this regard.

The extraordinary general meeting of LMC will be convened and held for the independent shareholders of LMC to consider and, if thought fit, approve the continuing connected transaction contemplated under the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement.

Details in connection with the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement and the 2024 Chemicals Purchase Agreement (including the respective annual caps), the recommendation of the independent board committee of LMC and the advice of the independent financial adviser of LMC will be included in the circular to be issued by LMC. The aforesaid circular together with the notice of LMC extraordinary general meeting is expected to be despatched to the shareholders of LMC on or before 9 February 2024 (which is more than 15 business days after the publication of this joint announcement to allow sufficient time for LMC to prepare and finalise information to be included in the circular).

DEFINITIONS

The following defined terms are used in this joint announcement:

“2021 Chemicals Purchase Agreement”	the agreement dated 31 December 2020 (and as amended by the supplemental agreement dated 25 April 2022) entered into between LMC (as supplier) and LMP (as purchaser) pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group, details of which are set out in the joint announcements of LMP and LMC dated 31 December 2020 and 25 April 2022;
“2021 Continuing Connected Transaction Agreements”	the 2021 Jiangsu Steam and Electricity Agreement, 2021 Jiangxi Steam and Electricity Agreement, the 2021 Chemicals Purchase Agreement and the 2021 Loading Agreements collectively;
“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, details of which are set out in the announcement of LMC dated 4 January 2021;
“2021 Jiangsu Steam and Electricity Agreement”	the agreement dated 31 December 2020 entered into between Jiangsu Paper and Jiangsu Chemical in relation to the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical, details of which are set out in the joint announcement of LMP and LMC dated 31 December 2020;

“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 the announcement of LMC dated 4 January 2021;
“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 the announcement of LMC dated 4 January 2021;
“2021 Jiangxi Steam and Electricity Agreement”	the agreement dated 31 December 2020 between Jiangxi Chemical and LMP in relation to the supply of steam and electricity by Jiangxi Chemical to the LMP Group, details of which are set out in the joint announcement of LMP and LMC dated 31 December 2020;
“2021 Loading Agreements”	the 2021 Jiangxi Industrial Salt Loading Agreement, the 2021 Jiangxi PAC Loading Agreement and the 2021 Jiangsu Loading Agreement collectively;
“2024 Chemicals Purchase Agreement”	the agreement dated 29 December 2023 entered into between LMC (as supplier) and LMP (as purchaser) pursuant to which the LMC Group would supply various industrial chemical products to the LMP Group, details of which are set out in this joint announcement;
“2024 Chemicals Purchase Annual Caps”	the maximum annual consideration to be paid or received for the supply of various industrial chemical products by the LMC Group to the LMP Group under the 2024 Chemicals Purchase Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026, details of which are set out in this joint announcement;
“2024 Continuing Connected Transaction Agreements”	the 2024 Jiangsu Steam and Electricity Agreement, 2024 Jiangxi Steam and Electricity Agreement, the 2024 Chemicals Purchase Agreement and the 2024 Loading Agreement collectively;
“2024 Jiangsu Steam and Electricity Agreement”	the agreement dated 29 December 2023 entered into between Jiangsu Paper and Jiangsu Chemical in relation to the supply of steam and electricity by Jiangsu Paper to Jiangsu Chemical, details of which are set out in this joint announcement;

“2024 Jiangsu Steam and Electricity Annual Caps”	the maximum annual consideration to be paid or received for the supply of electricity and steam by Jiangsu Paper to Jiangsu Chemical under the 2024 Jiangsu Steam and Electricity Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026, details of which are set out in this joint announcement;
“2024 Jiangxi Steam and Electricity Agreement”	the agreement dated 29 December 2023 entered into between Jiangxi Chemical and LMP in relation to the supply of steam and electricity by Jiangxi Chemical to the LMP Group, details of which are set out in this joint announcement;
“2024 Jiangxi Steam and Electricity Annual Caps”	the maximum annual consideration to be paid or received for the supply of electricity and steam by Jiangxi Chemical to the LMP Group under the 2024 Jiangxi Steam and Electricity Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026, details of which are set out in this joint announcement;
“2024 Loading Agreement”	the agreement dated 29 December 2023 entered into between and among Jiangxi Paper, Jiangxi Chemical, Jiangsu Paper and Jiangsu Chemical, in relation to the provision of loading and unloading services, details of which are set out in this joint announcement;
“2024 Loading Annual Caps”	the maximum annual consideration to be paid or received for the provision of loading and unloading services by Jiangsu Paper and Jiangxi Paper under the 2024 Loading Agreement Agreement for each of the three financial years ending 31 December 2024, 2025 and 2026, details of which are set out in this joint announcement;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Directors”	the directors of either LMP or LMC (as the case may be);
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
“Jiangsu Chemical”	Jiangsu Lee & Man Chemical Limited 江蘇理文化工有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMC;

“Jiangsu Paper”	Jiangsu Lee & Man Paper Manufacturing Company Limited 江蘇理文造紙有限公司, a foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMP;
“Jiangxi Chemical”	Jiangxi Lee & Man Chemical Limited 江西理文化工有限公司, a wholly-owned foreign investment enterprise established in the PRC and an indirect wholly-owned subsidiary of LMC;
“Jiangxi Paper”	Jiangxi Lee & Man Paper Manufacturing 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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LMC”	Lee & Man Chemical Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMC Group”	LMC and its subsidiaries;
“LMC Independent Directors”	the independent non-executive Directors on the independent board committee of LMC;
“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 PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“ton”	a metric ton, a measurement of mass equal to 1,000 kilograms;

“VAT” value added tax; and

“%” per cent.

For illustration purposes only, the exchange rate of RMB1 = HK\$1.08 has been adopted for translating RMB into HK\$ in this joint announcement.

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

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

Hong Kong, 29 December 2023

As at the date of this joint announcement, the board of directors of Lee & Man Paper Manufacturing Limited comprises five executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun, Mr. Li King Wai Ross, Mr. Lee Jude Ho Chung and Mr. Yip Heong Kan, and three independent non-executive directors, namely Mr. Chau Shing Yim David, Ms. Lo Wing Sze and Mr. Chan Wai Yan Ronald, and the board of directors of Lee & Man Chemical Company Limited comprises four executive directors, namely, Ms. Wai Siu Kee, Mr. Lee Man Yan, Professor Chan Albert Sun Chi and Mr. Yang Zuo Ning, and three independent non-executive directors, namely, Mr. Wan Chi Keung, Aaron, Mr. Heng Victor Ja Wei and Mr. Wong King Wai Kirk.