

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liabilities whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)



理 文 化 工 有 限 公 司
LEE & MAN CHEMICAL COMPANY LIMITED
(Incorporated in the Cayman Islands and its members' liability is limited)
(Stock Code: 746)

JOINT ANNOUNCEMENT – CONNECTED TRANSACTION

LOAN CAPITALIZATION

On 31 December 2020 (after trading hours), LM Industries, a wholly-owned subsidiary of LMP, and LM Chemical Investment, a wholly-owned subsidiary of the LMC, entered into the Loan Capitalization Agreement with the JV Company. Pursuant to such agreement, the outstanding amount of the Loan in the principal sum of HK\$196,685,000 shall be capitalised into 2 JV Shares and each JV Share shall be allotted and issued to LM Industries and LM Chemical Investment (or their respective nominee), respectively.

Upon completion of the Loan Capitalization, the JV Company remains equally held by LM Industries and LM Chemical Investment.

LISTING RULES IMPLICATION

Mr. Lee Man Yan, the ultimate controlling shareholder of LMC holding 65% issued shares of LMC as at the date of this announcement, is an associate of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, the executive Directors of LMP.

Each of Dr. Lee Man Chun Raymond and Mr. Lee Man Bun holds 31.27% issued shares of LMP as at the date of this announcement.

Accordingly, LMP and LMC are connected persons of each other under the Listing Rules and the transactions under the Loan Capitalization Agreement constitute a connected transaction for each of LMP and LMC under the Listing Rules. LMP does not hold any shares in LMC and vice versa as at the date of this announcement.

* *for identification purposes only*

LMP

In respect of LMP, as the applicable percentage ratio under the Listing Rules in respect of the LMP Loan Capitalization is more than 0.1% but less than 5%, the LMP Loan Capitalization will be subject to the reporting and announcement requirements but is exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, as the applicable percentage ratio under the Listing Rules in respect of the LMC Loan Capitalization is more than 0.1% but less than 5%, the LMC Loan Capitalization will be subject to the reporting and announcement requirements but is exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Pursuant to the Loan Agreement, LMP and LMC together made available to the JV Company a loan for the purpose of paying up the investment capital amount of Ruichang Logistics, which is wholly-owned by the JV Company. As at 31 December 2020, the aggregate outstanding principal amount of the Loan was HK\$196,685,000. The Loan is unsecured, interest-free and have no fixed term of repayment and provided to the JV Company in the form of shareholders' loans and forms part of the net investment in the JV Company.

LOAN CAPITALIZATION

Principal terms of the Loan Capitalization Agreement are set out below:

Date: 31 December 2020 (after trading hours)

Parties: LM Industries;
LM Chemical Investment; and
the JV Company.

LMP and LMC are connected persons of each other under the Listing Rules. Please refer to the section headed "General" in this announcement for details.

Pursuant to the Loan Capitalization Agreement, the total outstanding amount of the Loan in the aggregate principal sum of HK\$196,685,000 shall be capitalized into 2 JV Shares and each JV Share shall be allotted and issued to LM Industries and LM Chemical Investment (or their respective nominee), respectively. As such, each of LM Industries and LM Chemical Investment shall capitalize its shareholders' loans to the JV Company in the principal amount of HK\$98,342,500 into 1 JV Share.

Shareholders of the JV Company	Prior to the Loan Capitalization		Immediately upon the Loan Capitalization	
	Issued JV Shares	Issued share capital of the JV Company	Issued JV Shares	Issued share capital of the JV Company
LM Industries	- 1 -	HK\$1	- 2 -	HK\$98,342,501
LM Chemical Investment	- 1 -	HK\$1	- 2 -	HK\$98,342,501
Total:	- 2 -	HK\$2	- 4 -	HK\$196,685,002

Immediately upon the Loan Capitalization, which shall be effective on 31 December 2020, the JV Company remains being held by each of LM Industries and LM Chemical Investment as to 50%.

INFORMATION OF LM INDUSTRIES, LM CHEMICAL INVESTMENT AND THE JV COMPANY

LM INDUSTRIES

LM Industries is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of LMP, which is principally engaged in investment holding.

LM CHEMICAL INVESTMENT

LM Chemical Investment is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of LMC, which is principally engaged in investment holding.

JV COMPANY

The JV Company is a company incorporated in Hong Kong, which was held by each of LMP and LMC as to 50%, as at the date of this announcement. The JV Company directly wholly owns Ruichang Logistics, which is principally engaged in undertaking certain pier construction projects in Jiangxi, China.

Based on the unaudited consolidated accounts of the JV Company prepared for each of the years ended 31 December 2018 and 31 December 2019, respectively, the consolidated financial information of the JV Company is as follows:

	For the year ended 31 December 2018 <i>(HK\$'000)</i> <i>(unaudited)</i>	For the year ended 31 December 2019 <i>(HK\$'000)</i> <i>(unaudited)</i>
Revenue	nil	nil
Net loss (before tax)	1,973	6,173
Net loss (after tax)	1,973	6,173

As at 30 November 2020, the unaudited consolidated total asset value and net liabilities of the JV Company were approximately HK\$243.9 million and HK\$23.9 million, respectively.

REASONS FOR AND BENEFITS OF THE LOAN CAPITALIZATION

As at the date of this announcement, the Loan provided by LM Industries and LM Chemical Investment had already been applied by the JV Company as a long-term investment on Ruichang Logistics for its pier construction projects. Whilst the pier construction has completed, the pier is still in its preliminary phase of operations and substantial cashflow is required. The Directors consider that since the Loan is interest-free and is not expected to be repaid in the short term, it is more appropriate for LMC and LMP to capitalize the Loan now in support of the early stage development of the pier project in which the JV Company has an indirect interest. Each of LMC and LMP expects the success of such pier project to bring stable income to the JV Company through dividends in the future.

Taking into account the reasons and benefits set out above, the Directors (including the independent non-executive Directors) of each of LMP and LMC are of the view that whilst the Loan Capitalization Agreement is not in the ordinary and usual course of business of each of LMP's and LMC's respectively, the terms of the Loan Capitalization 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. LMC and its subsidiaries are principally engaged in the manufacture and sale of chemical products.

Mr. Lee Man Yan, the ultimate controlling shareholder of LMC holding 65% issued shares of LMC as at the date of this 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 31.27% issued shares of LMP as at the date of this announcement.

Accordingly, LMP and LMC are connected persons of each other under the Listing Rules and the transactions under the Loan Capitalization Agreement constitute a connected transaction for each of LMP and LMC under the Listing Rules. LMP does not hold any shares in LMC and vice versa as at the date of this announcement.

Dr. Lee Man Chun Raymond and Mr. Lee Man Bun, who are Directors of LMP and associates of Mr. Lee Man Yan, and Mr. Wong Kai Tung Tony, who is a Director of both LMP and LMC, had abstained from voting on the board resolutions of LMP in relation to the Loan Capitalization Agreement. 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, and Mr. Wong Kai Tung Tony who is a Director of both LMP and LMC, had abstained from voting on the board resolutions of LMC in relation to the Loan Capitalization Agreement.

Save as aforesaid, no other director of LMP or LMC has any material interest in the Loan Capitalization Agreement or was required to abstain from voting at the board meetings of LMP and LMC in relation to the same.

Mr. Li King Wai Ross, a Director of LMP and brother-in-law 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 Loan Capitalization Agreement to avoid the perception of conflict of interest.

LISTING RULES IMPLICATIONS

LMP

In respect of LMP, as the applicable percentage ratio under the Listing Rules in respect of the LMP Loan Capitalization is more than 0.1% but less than 5%, the LMP Loan Capitalization will be subject to the reporting and announcement requirements but is exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LMC

In respect of LMC, as the applicable percentage ratio under the Listing Rules in respect of the LMC Loan Capitalization is more than 0.1% but less than 5%, the LMC Loan Capitalization will be subject to the reporting and announcement requirements but is exempted from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

The following defined terms are used in this 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;
“JV Company”	Southern Hill Company Limited (南峰有限公司), a company incorporated in Hong Kong with limited liability and a joint venture company of LMP and LMC;
“JV Share(s)”	share(s) of the JV Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“LM Chemical Investment”	Lee & Man Chemical Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of LMC;
“LM Industries”	Lee & Man Industries Company Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of LMP;
“LMC”	Lee & Man Chemical Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMC Loan Capitalization”	the capitalization of the outstanding amount of the Loan of HK\$98,342,500 owed by the JV Company to LM Chemical Investment into 1 new JV Share pursuant to the Loan Capitalization Agreement;
“LMP”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“LMP Loan Capitalization”	the capitalization of the outstanding amount of the Loan of HK\$98,342,500 owed by the JV Company to LM Industries into 1 new JV Share pursuant to the Loan Capitalization Agreement;
“Loan”	the interest-free shareholders’ loan in the aggregate principal amount of HK\$196,685,000 advanced by LM Industries and LM Chemical Investment to the JV Company pursuant to the Loan Agreement;
“Loan Agreement”	a loan agreement dated 28 June 2011 entered into among LMP, LMC and the JV Company in relation to, among others, the formation of the JV Company and the provision of the Loan to the JV Company;

“Loan Capitalization”	the capitalization of the outstanding amount of the Loan of HK\$196,685,000 into 2 new JV Shares pursuant to the Loan Capitalization Agreement;
“Loan Capitalization Agreement”	the agreement dated 31 December 2020 entered into among LM Industries, LM Chemical Investment and the JV Company in respect of the Loan Capitalization;
“PRC”	the People’s Republic of China;
“Ruichang Logistics”	瑞昌理文物流有限公司 (Ruichang Lee & Man Logistics Company Limited), a company established in the PRC and a wholly-owned subsidiary of the JV Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

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, 31 December 2020

As at the date of this announcement, the board of directors of Lee & Man Paper Manufacturing Limited comprises three executive directors, namely Dr. Lee Man Chun Raymond, Mr. Lee Man Bun and Mr. Li King Wai Ross, one non-executive director, namely Professor Poon Chung Kwong, and three independent non-executive directors, namely Mr. Wong Kai Tung Tony, Mr. Peter A. Davies and Mr. Chau Shing Yim David.

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