

*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 liability 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)**

**ANNOUNCEMENT  
CONNECTED TRANSACTION AND  
CONTINUING CONNECTED TRANSACTIONS  
(1) ACQUISITION OF SHARES IN SHUNYING  
AND SHAREHOLDERS' LOANS TO SHUNYING  
(2) ENTERING INTO OF VIE DOCUMENTS  
AND  
(3) ENTERING INTO OF SERVICE AGREEMENT**

**INTRODUCTION**

The Board is pleased to announce that as part of its business strategy to support the “Belt & Road” Initiatives and target the Southeast Asia market for international development, the Company has planned to develop its pulp and paper manufacturing business in Cambodia. To this end, the Company has entered into agreements to acquire the indirect control of Shunying, a Cambodia-incorporated company, which has in turn entered into the Cambodian Land SPA to acquire the Land from a Local Seller at US\$98,748,000.

**SHARE ACQUISITION AGREEMENT**

On 21 June 2021, Able Might (an indirectly wholly-owned subsidiary of the Company) entered into the conditional Share Acquisition Agreement with Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong, pursuant to which Able Might will, at the Share Acquisition Completion, (i) acquire from Mr. Edmond Lee 490,000 Shunying Shares, representing 49% of the total number of issued Shunying Shares, at US\$490,000; and (ii) be assigned the Loans from Mr. Edmond Lee and Ms. Roletta Lee at the amount of the Loans excluding the interest portion.

\* For identification purposes only

## **VIE STRUCTURE**

Able Might (as a foreign investor) is not allowed to own the Land under Cambodian laws and regulations, and Shunying may only become the registered owner of the Land if 51% or more of its voting shares are held by natural persons of Cambodian nationality or by Cambodian legal entities recognized pursuant to the laws of Cambodia.

In this connection, Able Might entered into or will enter into (as the case may be) the Initial VIE Documents and the New VIE Documents with Shunying, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and/or Mr. Alex Wong to set up the VIE Structure which will enable Able Might to exercise control over and enjoy economic benefits flowing from 51% of the total number of issued Shunying Shares held under the names of the Cambodian Registered Owners.

With the arrangements under the VIE Structure in place, upon the Share Acquisition Completion, Able Might will be regarded as having control over and enjoying economic benefits flowing from the entire issued share capital in Shunying, through which the Group will control the Land upon the Land Acquisition Completion.

Upon the Share Acquisition Completion and implementation of the VIE Structure, the Group has the right to consolidate and will consolidate the financial results of Shunying into those of the Group as if Shunying were an indirectly wholly-owned subsidiary of the Company and being controlled by the Group.

## **OTHER SHARE TRANSFER AND NEW VIE DOCUMENTS**

The Other Share Transfer is contemplated to take place in respect of Shunying Shares after both Dr. Raymond Lee and Mr. Alex Wong obtain Cambodian nationality, such that immediately upon the completion of the Other Share Transfer, Able Might, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong will be registered owners of 49%, 20.5%, 5%, 20.5% and 5% of the total number of issued Shunying Shares, respectively.

In light of the Other Share Transfer, (i) each of Able Might, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong will enter into the New Loan Agreement and New Share Pledge Agreements in place of the Initial Loan Agreement and the Initial Share Pledge Agreements; (ii) each of Dr. Raymond Lee and Mr. Alex Wong will give an Additional POA; and (iii) Mr. Alex Wong will give the Additional Spousal Undertaking. The New Loan Agreement, the New Share Pledge Agreements, the Initial POAs, the Additional POAs, the Shareholders' Agreement, the Initial Spousal Undertakings, the Additional Spousal Undertaking and the Mortgage Agreement will form the New VIE Documents and enable Able Might to continue to have control over and enjoy economic benefits of such Shunying Shares registered under the names of the Cambodian Registered Owners.

### **SERVICE AGREEMENT**

Upon the Share Acquisition Completion, Able Might is prepared to support, together with the Cambodian Registered Owners, the ongoing performance of Shunying of its obligations under the Cambodian Land SPA, so that upon the Land Acquisition Completion, Shunying will own the Land and build the Factory on the Land. To facilitate the operation of Shunying's pulp and paper manufacturing business in Cambodia, on 21 June 2021, Able Might, Shunying and Heng Yick entered into the Service Agreement, pursuant to which Heng Yick has been appointed as a consultant to Shunying for the provision of the Services.

### **IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, Shunying is owned as to 85% and 15% by Mr. Edmond Lee and Ms. Roletta Lee respectively. Mr. Edmond Lee is an executive Director and the Chief Executive Officer of the Company. Dr. Raymond Lee is an executive Director and the Chairman of the Company. Heng Yick is wholly owned by Ms. Roletta Lee, who is a sister of both Mr. Edmond Lee and Dr. Raymond Lee. As a result, each of Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee, Shunying and Heng Yick are connected persons of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Share Acquisition Agreement constitute a connected transaction of the Company, and the transactions contemplated under the Initial VIE Documents, the New VIE Documents and the Service Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of each of (i) the Share Acquisition and the Loan Assignment both pursuant to the Share Acquisition Agreement; (ii) the transactions under the VIE Documents; and (iii) the Service Agreement exceed 0.1% but are less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the Transactions are only subject to the announcement, reporting and (in respect of the transactions contemplated under the VIE Documents and the Service Agreement only) annual review requirements, but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements.

Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement for a continuing connected transaction of a listed issuer must not exceed three years except in special circumstances. As the terms of the VIE Documents exceed three years, the Company has appointed the Independent Financial Adviser to explain the reasons that the VIE Documents require terms that are longer than three years and to confirm that it is normal business practice for documents of these types to be of such durations.

## **INTRODUCTION**

The Board is pleased to announce that as part of its business strategy to support the “Belt & Road” Initiatives and target the Southeast Asia market for international development, the Company has planned to develop its pulp and paper manufacturing business in Cambodia. To this end, the Company has entered into agreements to acquire the indirect control of Shunying, a Cambodia-incorporated company, which has in turn entered into the Cambodian Land SPA to acquire the Land from a Local Seller at US\$98,748,000.

## **SHARE ACQUISITION AGREEMENT**

On 21 June 2021, Able Might (an indirectly wholly-owned subsidiary of the Company) entered into the conditional Share Acquisition Agreement with Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong, pursuant to which Able Might will, at the Share Acquisition Completion, (i) acquire from Mr. Edmond Lee 490,000 Shunying Shares, representing 49% of the total number of issued Shunying Shares, at US\$490,000; and (ii) be assigned the Loans from Mr. Edmond Lee and Ms. Roletta Lee at the amount of the Loans excluding the interest portion.

The principal terms of the Share Acquisition Agreement are set out as follows:

Date: 21 June 2021

Parties:

- (1) Able Might (as purchaser)
- (2) Mr. Edmond Lee (as the vendor of the Sale Shares and an assignor of the Loan), an executive Director and the Chief Executive Officer of the Company
- (3) Ms. Roletta Lee (as an assignor of the Loan), a sister of both Mr. Edmond Lee and Dr. Raymond Lee
- (4) Dr. Raymond Lee (as covenantor), an executive Director and the Chairman of the Company
- (5) Mr. Alex Wong (as covenantor), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, not a connected person of the Company

Assets to be acquired:

- (a) the Sale Shares, i.e. 490,000 Shunying Shares, representing 49% of the total number of issued Shunying Shares; and
- (b) the Loans, comprising (1) US\$37,598,840.82 (being the sum of the advance made by Mr. Edmond Lee so far for settling the refundable deposits under the Cambodian Land SPA and the operating costs of Shunying) and the accrued but unpaid interest thereupon up to the Share Acquisition Completion; and (2) US\$13,192,694.54 (being the sum of the advance made by Ms. Roletta Lee so far for settling the refundable deposits under the Cambodian Land SPA and the operating costs of Shunying) and the accrued but unpaid interest thereupon up to the Share Acquisition Completion.

As at the date of this announcement, the interest accrued but unpaid on the advance made by Mr. Edmond Lee and Ms. Roletta Lee so far as referred to the above is US\$734,325.44.

Consideration:

The consideration comprises the Share Consideration and the Loan Consideration.

The Share Consideration shall be US\$490,000, representing the amount of registered capital having been paid-up in respect of the Sale Shares.

The Loan Consideration shall be such amount equivalent to the entire amount of the Loans excluding the interest portion, i.e. US\$37,598,840.82 in respect of Mr. Edmond Lee Loan and US\$13,192,694.54 in respect of Ms. Roletta Lee Loan.

The entire amount of the Share Consideration and the Loan Consideration shall be payable against compliance with the completion obligations by Mr. Edmond Lee, Ms. Roletta Lee and Shunying under the Share Acquisition Agreement.

Based on the above, the Directors consider that the Share Consideration and the Loan Consideration are both fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Share Consideration and the Loan Consideration shall be payable by Able Might in cash from the Group's internal sources.

Condition precedent:

The Share Acquisition Completion and the Loan Assignment shall be conditional upon satisfaction of the following conditions precedent:

- (a) all consents, approvals, documents and clearances which are necessary or which Able Might has been advised that it is desirable to obtain (including from the Ministry of Commerce, The Council for the Development of Cambodia or other governmental or official authorities) (1) in respect of the execution, delivery and performance of the Share Acquisition Agreement and the Initial VIE Documents; (2) to enable Able Might to be registered as a holder of the Sale Shares; and (3) in respect of the change in composition of the board of directors of Shunying as Able Might may direct having been obtained;
- (b) the Cambodian Land SPA having not been terminated by whatever reason prior to the Share Acquisition Completion; and
- (c) the warranties and representations given by the parties to the Share Acquisition Agreement remaining true and accurate in all material respects and not misleading in any material respect at the Share Acquisition Completion as if repeated at the Share Acquisition Completion and at all times between the date of the Share Acquisition Agreement and the Share Acquisition Completion.

In the event that any of the above conditions shall not have been fulfilled (or waived by Able Might) prior to 31 October 2021 (or such other date as may be agreed by the parties to the Share Acquisition Agreement), Able Might shall not be bound to proceed with the purchase of the Sale Shares or the acceptance of the Loan Assignment, and the Share Acquisition Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Share Acquisition Agreement.

Completion:

The Share Acquisition Completion and the Loan Assignment shall take place on the third business day after the satisfaction (or waiver) of the conditions (or such other date as may be agreed in writing among Able Might, Mr. Edmond Lee and Ms. Roletta Lee).

Non-completion of the  
Cambodian Land SPA:

If (i) the Cambodian Land SPA fails to proceed to the Land Acquisition Completion or (ii) the same is terminated prior to the Land Acquisition Completion by whatever reason or (iii) if any party to the Share Acquisition Agreement considers that the Local Seller is in breach of the Cambodian Land SPA, it is expressly agreed that Mr. Edmond Lee and Ms. Roletta Lee, and (upon Dr. Raymond Lee and Mr. Alex Wong having become registered shareholders of Shunying) Dr. Raymond Lee and Mr. Alex Wong, shall procure Shunying to:

- (a) appoint a Cambodian law firm which Able Might may in its absolute discretion determine to be the legal counsel of Shunying to advise on Cambodian law on the matter; or
- (b) take all necessary steps, actions or proceedings to recover all of the Land Price having been paid to the Local Seller under the Cambodian Land SPA; or
- (c) refund or pay to Able Might (i) all such amount having been advanced by Able Might to Shunying for the purposes of settling any Land Price payable but not yet paid to the Local Seller; or (ii) all such amount of the Land Price having been recovered from the Local Seller; or
- (d) seek such other remedies as appropriate.



Further Undertakings in  
relation to the Other Share  
Transfer and New VIE  
Documents:

It is acknowledged that Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong intend to complete the Other Share Transfer and enter into the New VIE Documents as soon as practicable after both Dr. Raymond Lee and Mr. Alex Wong obtain Cambodian nationality and that the New VIE Documents will take effect on the date upon which both Dr. Raymond Lee and Mr. Alex Wong become registered owners of 20.5% and 5% of the total number of issued Shunying Shares.

As soon as practicable but no later than the fifth business day (or such later date as Able Might may determine) after both Dr. Raymond Lee and Mr. Alex Wong obtain Cambodian nationality, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong shall:

- (a) sign and execute all such documents and/or take all such actions as may be necessary to complete the Other Share Transfer (including but not limited to obtaining all necessary consents, approvals, documents and clearances), such that Mr. Edmond Lee, Dr. Raymond Lee, Ms. Roletta Lee and Mr. Alex Wong will hold 20.5%, 20.5%, 5% and 5% of the total number of issued Shunying Shares respectively immediately after the completion of the Other Share Transfer;
- (b) complete the registration of the amended memorandum and articles of association of Shunying with the relevant Cambodian authorities and institutions to reflect that Able Might, Mr. Edmond Lee, Dr. Raymond Lee, Ms. Roletta Lee and Mr. Alex Wong are the registered owners of 49%, 20.5%, 20.5%, 5% and 5% of the total number of Shunying Shares then in issue respectively; and
- (c) enter into the New VIE Documents and take all such actions as may be necessary to implement and give effect to the New VIE Documents.



Each of Dr. Raymond Lee and Mr. Alex Wong undertakes that if the Land Acquisition Completion does not take place when both Dr. Raymond Lee and Mr. Alex Wong become the registered owners of Shunying Shares in light of the Other Share Transfer, he shall also comply with such undertakings as given by Mr. Edmond Lee and Ms. Roletta Lee under the Share Acquisition Agreement as if he were Mr. Edmond Lee or Ms. Roletta Lee.

## **CAMBODIAN LAND SPA**

As a result of the Share Acquisition and the implementation of the VIE Structure, Able Might will be able to exercise control and enjoy economic benefits over Shunying and treat Shunying as its wholly-owned subsidiary. On this basis, Able Might is prepared to support the ongoing performance by Shunying of its obligations under the Cambodian Land SPA together with the Cambodian Registered Owners, such that after the Land Acquisition Completion, Shunying will own the Land and build the Factory.

In essence, Able Might will fund the payment of the outstanding amount of the Land Price payable by Shunying on and after the Share Acquisition Completion by way of shareholders' loans to Shunying.

The principal terms of the Cambodian Land SPA are set out as follows:

Dates:	The initial agreement was executed on 21 February 2020, and certain terms of the initial agreement were varied or amended by supplemental agreements dated 22 January 2021 and 4 February 2021
Parties:	(1) Local Seller (as seller) (2) Shunying (as purchaser)
Assets to be acquired:	a vacant parcel of Land with the area of 126.11 hectares next to a national road and the Port as specifically delineated in the Cambodian Land SPA

Purchase price:

The Land Price is US\$98,748,000.

As at the date of this announcement, the shareholders of Shunying have funded Shunying for payment of the refundable deposits of the Land Price in the aggregate amount of US\$50,400,000 to the Local Seller by the respective payment due dates after the satisfaction of relevant payment conditions pursuant to the Cambodian Land SPA, including but not limited to, the receipt of true copies of:

- (a) water licences transferred to Shunying for usage of river water and discharge of waste water;
- (b) approval letters issued by the relevant government authorities in Cambodia on agreeing to construction of the Factory and a coal-fired power station for internal use in the Factory with licence to import coal for generation purpose;
- (c) the final ESIA report and approval for the construction of the Factory and the coal-fired power station; and
- (d) certificate and/or letter issued by the relevant government authorities in Cambodia to Shunying on its investment in Cambodia for pulp and paper manufacturing with approval to (i) import raw materials and recovered paper from overseas for the operation of the Factory; (ii) import wood pulp; and (iii) construct and operate own coal-fired power station, water intakes or pumping stations and import of machines and construction material.

The remaining US\$48,348,000 of the Land Price shall be payable to the Local Seller pursuant to the Cambodian Land SPA in the following manner:

- (a) a refundable deposit of US\$21,000,000 shall be payable within 7 business days after Shunying receives the written payment advice and upon all true copies of, among other things, (i) official documents or evidences issued by the relevant government authorities on land management in Cambodia for transfer of the Land to and under the name of Shunying; (ii) other necessary supporting documents issued in respect of the transfer of the Land to Shunying; and (iii) approval and/or licence from the relevant government authorities for pulp and paper manufacturing, import of raw materials and recovered paper and construction and operation of the Factory, water intake/discharge points and/or infrastructures;
- (b) a refundable deposit of US\$23,000,000 shall be payable within 7 business days after Shunying receives the written payment advice and upon all true copies of, among other things, (i) ownership certificate(s) granted or issued showing hard land title of the Land under the name of Shunying and other necessary documents issued showing completion of transfer of the title of the Land (which could be used by Shunying for building the Factory); (ii) certificate recognizing a possession right over immovable property to and under the name of Shunying; (iii) construction licence or permit issued to Shunying for construction of phase 1 Factory; and (iv) final ESIA report and approval letter issued by the relevant government authority in Cambodia for special economic zone and construction of the Port, which is to be used by Shunying for loading pulp, paper and coal; and
- (c) the final instalment of US\$4,348,000 shall be payable within 7 business days after Shunying receives the written payment advice and upon all true copies of, among other things, (i) licence or permit issued by the relevant government authority in Cambodia to allow the operation and production of the Factory; (ii) licence or permit issued to allow the operation and generation of the coal-fired power station; (iii) construction licence or permit issued for construction of the Port; and (iv) (if applicable) all other payment conditions for the refundable deposits and final instalment of the Land Price having been fulfilled.

If any of the conditions or licences set out above in the Cambodian Land SPA are not fulfilled by the Local Seller or granted within the times respectively prescribed in the Cambodian Land SPA (or such other date as may be agreed between Shunying and the Local Seller in writing), or that the Local Seller is unable to fulfill every and all of the conditions set out in the Cambodian Land SPA by 22 January 2023, the Cambodian Land SPA will lapse and neither Shunying nor the Local Seller shall be bound to proceed with the sale and purchase of the Land and the Port, and without penalty, Shunying shall not hold any responsibilities and the Local Seller shall forthwith refund to Shunying all refundable deposits of the Land Price paid by Shunying pursuant to the Cambodian Land SPA.

Other major terms:

The Local Seller shall lawfully transfer, register and deliver to Shunying the full and unencumbered ownership and certificate of title to the Land and the Port under the name of Shunying and/or any person(s) or entity(ies) of Shunying's choice. The Local Seller also agrees to transfer and change the titles, licences and permissions (if applicable) of the Land to Shunying. Shunying shall receive complete title of the Land and enjoy exclusive use and vacant possession of the Land upon the Land Acquisition Completion.

The Local Seller is obliged to prepare and file application or any related document to the relevant government authorities or institutions of Cambodia for grant of approval for establishment of the Factory on the Land.

The Local Seller shall obtain on behalf of Shunying various licences and approvals necessary for Shunying's construction of the Factory over the Land, which include but not limited to paper and pulp import approval, coal licences, water intake and discharge licences, construction licences, tax free licence or exemption, environmental impact assessment approval and all such other licences or approvals as referred to in the Cambodian Land SPA.

The Local Seller shall prepare documents for application of pier building approval for the Port and build a passage or barge bridge, along which Shunying will build its own Port.

The Local Seller agrees to comply with the terms and conditions of the Cambodian Land SPA and, in the event of failure of compliance, he shall compensate Shunying the full amount of the Land purchase price received from Shunying.

## **INFORMATION ABOUT THE LAND AND THE PORT**

The Land is a piece of vacant land parcel with the area of about 126.11 hectares located in Tuek Chhou District, Kampot Province, Cambodia. The Port is to be built by Shunying or its nominee on a site adjacent to the Land with coastal line of 500-metre long and by 30-metre wide and at around 12-metre deep.

The Group intends to build the Factory over the Land and the Port under the name of Shunying upon the Share Acquisition Completion and the Land Acquisition Completion.

## **INFORMATION ABOUT SHUNYING**

Shunying was incorporated in Cambodia in July 2019 for the business objective in manufacture of paper.

As at the date of this announcement, the registered capital of Shunying is US\$1,000,000, divided into 1,000,000 Shunying Shares, 850,000 Shunying Shares of which (representing 85% of the total number of issued Shunying Shares) are owned by Mr. Edmond Lee and 150,000 Shunying Shares of which (representing 15% of the total number of issued Shunying Shares) are owned by Ms. Roletta Lee.

Shunying entered into the Cambodian Land SPA and the relevant supplemental agreements for the acquisition of the Land at US\$98,748,000, which was determined based on the arm's length negotiation between the Local Seller and Shunying after taking into account (i) the valuation report of the Land by an independent valuer; and (ii) the prospects of the Land and the Port. Upon the Land Acquisition Completion, Shunying will become the registered owner of the Land and will build a Factory and the Port for the operation of pulp and paper manufacturing business.

## **INFORMATION ABOUT ABLE MIGHT AND THE GROUP**

The Group is principally engaged in large-scale paper manufacturing and specializes in the production of linerboard, corrugated medium and tissue paper. Able Might is an indirectly wholly-owned subsidiary of the Company and is principally engaged in investment holding, and will hold the investment in Shunying for the Group.

## FINANCIAL INFORMATION OF SHUNYING

Set out below is the unaudited financial information of Shunying from its date of incorporation to 31 December 2019 and the financial year ended 31 December 2020:

	<b>From date of incorporation to 31 December 2019 (US\$'000)</b>	<b>For the year ended 31 December 2020 (US\$'000)</b>
Revenue	–	–
Net loss before taxation	51	373
Net loss after taxation	51	373

The total asset value of Shunying as at 31 May 2021 was approximately US\$51.3 million. The net liabilities of Shunying as at 31 May 2021 were approximately US\$0.4 million.

Shunying was incorporated in 11 July 2019, and hence it only recorded financial information from its date of incorporation to 31 December 2019 and the financial year ended 31 December 2020. Shunying has yet to commence any business operation as at the date of this announcement.

Upon the Share Acquisition Completion, the Company will indirectly hold 49% of the issued Shunying Shares and, through the VIE Documents, will have effective control over the financing and operations of Shunying, and enjoy the economic benefits flowing from the entire issued share capital of Shunying. Pursuant to the VIE Documents, Able Might is able to control the finance and operation of Shunying so as to obtain the economic benefits from its business activities despite the lack of registered ownership of over 50% of the total issued share capital of Shunying. The Company has discussed with its auditors which have concurred with management of the Company on its proposed accounting treatment that the consolidation of the financial results of Shunying into those of the Group is in line with Hong Kong Financial Reporting Standards.

## VIE STRUCTURE

Cambodian laws and regulations prohibit any foreigner, either a natural person or legal entity from owning any land in Cambodia. In light of the Foreign Ownership Restriction, only natural persons or legal entities of Cambodian nationality have the right to ownership of land in Cambodia. A company is treated as having Cambodian nationality if 51% or more of its voting shares are owned by Cambodians or Cambodian legal entity.

Accordingly, Able Might (as a foreign investor) is not allowed to own the Land, and Shunying may only become the registered owner of the Land if 51% or more of its issued share capital are held by natural persons of Cambodian nationality or by Cambodian legal entities recognized pursuant to the laws of Cambodia.

In this connection, Able Might entered into or will enter into (as the case may be) the Initial VIE Documents and the New VIE Documents with Shunying, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and/or Mr. Alex Wong to set up the VIE Structure which will enable Able Might to exercise control over and enjoy economic benefits flowing from 51% of the total number of issued Shunying Shares held under the names of the Cambodian Registered Owners.

The Cambodian Legal Adviser has advised that the arrangement of VIE Structure does not violate the Foreign Ownership Restriction or other Cambodian laws, given that the Land is legally owned by Shunying (a company incorporated in Cambodia) with majority of its issued shares together being held under the names of the Cambodian Registered Owners. Able Might is allowed to enter into contracts and documentations to safeguard its investment and obtain control over Shunying. With the arrangements under the VIE Structure in place, upon the Share Acquisition Completion, Able Might will be regarded as having control over and enjoying economic benefits flowing from the entire issued share capital in Shunying, through which the Group will control the Land upon the Land Acquisition Completion.

## **Details of the VIE Documents**

### ***Initial VIE Documents***

The Initial VIE Documents comprise the following:

- (1) the Initial Loan Agreement;
- (2) the Initial Share Pledge Agreements;
- (3) the Initial POAs;
- (4) the Shareholders' Agreement;
- (5) the Initial Spousal Undertakings; and
- (6) the Mortgage Agreement.



The principal terms of the Initial VIE Documents are set out below:

(1) Initial Loan Agreement

- Date: 21 June 2021
- Parties: (1) Able Might (as lender)  
(2) Mr. Edmond Lee and Ms. Roletta Lee (as borrowers)
- Facilities: Subject to the Share Acquisition Completion, Able Might agrees to make available a facility in the amount up to US\$360,000 to Mr. Edmond Lee and US\$150,000 to Ms. Roletta Lee for a period on the date of the Share Acquisition Completion.
- Advance: On the date of the Share Acquisition Completion, Able Might shall make the advance to Mr. Edmond Lee and Ms. Roletta Lee by depositing US\$360,000 and US\$150,000.
- Purpose of facilities: The proceeds of the facilities represent the equity capital contributed by Mr. Edmond Lee and Ms. Roletta Lee to Shunying for the purpose of funding the acquisition of the Land by Shunying or the operating costs and expenses of Shunying.
- Interest: Nil
- Repayment date: Mr. Edmond Lee and Ms. Roletta Lee shall repay the loan under the Initial Loan Agreement to Able Might at the earlier of the following:
- (1) Able Might is allowed under Cambodian law or for any other reason whatsoever to be registered as the owner of Mr. Edmond Lee's and Ms. Roletta Lee's respective Shunying Shares or of the Land; and
  - (2) Mr. Edmond Lee and Ms. Roletta Lee hold less than 51% of the total number of issued Shunying Shares in aggregate.

Repayment: Unless Able Might gives written notice to Mr. Edmond Lee and Ms. Roletta Lee that the loan under the Initial Loan Agreement should in whole or in part be repaid by way of cash, Mr. Edmond Lee and Ms. Roletta Lee shall only repay such loan by way of transferring their respective Shunying Shares to Able Might or to any other person to be nominated or designated by Able Might at nil consideration and returning to Able Might any consideration they may receive in the course of such share transfer. For the avoidance of doubt, Mr. Edmond Lee and Ms. Roletta Lee are not allowed to repay the whole or part of the loan under the Initial Loan Agreement by cash unless Able Might requires otherwise.

The obligations of Mr. Edmond Lee and Ms. Roletta Lee to repay the loan under the Initial Loan Agreement shall be regarded as completely discharged upon (i) the transfer of all their respective Shunying Shares to Able Might in the manner as specified in the Initial Loan Agreement in any event regardless of the value of the said Shunying Shares at the time of the transfer; or (ii) the repayment of the entire amount of the loan under the Initial Loan Agreement by cash pursuant to the notice from Able Might as provided in accordance with the Initial Loan Agreement.

Prepayment: Mr. Edmond Lee and Ms. Roletta Lee do not enjoy any rights to prepay the whole or part of the outstanding amount of the loan under the Initial Loan Agreement before the repayment date set out therein.

## (2) Initial Share Pledge Agreements

Date: 21 June 2021

Parties: (1) (A) Mr. Edmond Lee or (B) Ms. Roletta Lee (as the case may be) (as pledgor)  
(2) Able Might (as pledgee)

Secured amount: Any loan advanced or to be advanced by Able Might to Mr. Edmond Lee or Ms. Roletta Lee (as the case may be) (i) under the Initial Loan Agreement or (ii) otherwise related to Shunying, and (if any) all interest, default interest or other charges charged on any of the foregoing

Security:

Mr. Edmond Lee or Ms. Roletta Lee (as the case may be) assigns and pledges to and in favour of Able Might, and grants to Able Might, a continuing general and continuing collateral security interest in all of his/her right, title, interest and benefits in and to the relevant pledged Shunying Shares held by him/her on the terms and conditions set out therein with effect from the Share Acquisition Completion.

All rights, interests, benefits and powers attaching to their pledged Shunying Shares shall be granted to Able Might on the date of the Share Acquisition Completion.

On or after the date of the Share Acquisition Completion, Able Might shall be entitled to receive all Distribution, which will be and become part of the security being pledged under the relevant Initial Share Pledge Agreement and subject to the security interests created by the relevant Initial Share Pledge Agreement and, if received by Mr. Edmond Lee or Ms. Roletta Lee (as the case may be), will forthwith be delivered to Able Might or its nominee(s).

Restrictive covenant and undertaking of the pledgors:

Mr. Edmond Lee and Ms. Roletta Lee (as the case may be) agree that the Distribution declared or paid by Shunying in respect of the pledged Shunying Shares shall be for the benefit of Able Might and will be remitted to Able Might directly. In the event that the Distribution is received by Mr. Edmond Lee or Ms. Roletta Lee (as the case may be), he or she undertakes to remit any such Distribution received to Able Might immediately upon receipt.

Mr. Edmond Lee or Ms. Roletta Lee (as the case may be) covenants and undertakes with Able Might that, at all times during the continuance of the relevant Initial Share Pledge Agreement, he or she, among other things:

- (a) save and except for the purpose of implementing the Other Share Transfer, shall remain the registered owner and have full ownership of the relevant pledged Shunying Shares subject to the pledge created under the relevant Initial Share Pledge Agreement and shall not permit any person other than himself/herself or Able Might or its eligible nominee(s) to be registered as holder of the relevant pledged Shunying Shares or any part thereof; and
- (b) shall not, save for the Other Share Transfer, dispose of the pledged Shunying Shares held by him/her without the prior written consent of Able Might.

(3) Initial POAs

- Date: 21 June 2021
- Parties: (1) (A) Mr. Edmond Lee or (B) Ms. Roletta Lee (as the case may be) (as donor)  
(2) Mr. Li King Wai Ross, an executive Director (as well as his successor including liquidator replacing him as a Director) (as attorney)
- Term: One year from the date on which Able Might becomes a registered owner of any Shunying Shares and to be renewed automatically for successive periods of one year upon expiry, until the donor ceases to be a shareholder of Shunying, or the power is terminated by mutual agreement of the donor and the attorney. The attorney undertakes not to terminate the Initial POAs without the prior written consent of the Board.
- Scope of POA: Each of Mr. Edmond Lee and Ms. Roletta Lee appoints Mr. Li King Wai Ross, an executive Director (as well as his successor including liquidator replacing him as a Director) to be his/her attorney to, among other things, do the following:
- (a) deal with all aspects of the management and operations of Shunying;
  - (b) exercise all their rights as shareholders of Shunying in good faith and for proper purposes, including but not limited to, the disposition or acquisition of assets of, appointment of officers and employees of, day-to-day business decisions of, maintenance of records of, declaration of profits of, voting their shares as their proxies at any shareholders' meeting and board meeting of, Shunying, and all other issues concerning Shunying and for and on their behalf receive all dividends or profits declared to them as shareholders of Shunying; and
  - (c) sign or execute and deliver any of such documents or to do all other acts and things for the above purpose which the attorney may in his absolute discretion consider necessary or fit.
- Other major terms: Each of Mr. Edmond Lee and Ms. Roletta Lee has irrevocably and unconditionally undertaken that as long as he/she serves as a director or senior management in any company in the Group, he/she shall assign the interest and power under the POA to the attorney.

(4) Shareholders' Agreement

Date: 21 June 2021

Parties: (1) Able Might  
(2) Mr. Edmond Lee  
(3) Ms. Roletta Lee  
(4) Dr. Raymond Lee  
(5) Mr. Alex Wong  
(6) Shunying

Term: Save for the provisions set out in the parts of "Shareholding in Shunying" and "Further undertakings and covenants" below and certain standard provisions in the Shareholders' Agreement, which shall take effect immediately upon the entering into of the Shareholders' Agreement, the Shareholders' Agreement is conditional upon the occurrence of the Share Acquisition Completion and shall only be in force and effect on and from the date on which Able Might becomes the registered owner of the Sale Shares.

Shareholding in Shunying: During the terms of the Shareholders' Agreement, save as provided in the Share Acquisition Agreement or for the Other Share Transfer or with the consent of Able Might, each of Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong shall not dispose of any interest in any Shunying Shares, and no change in the share capital of Shunying may be effected unless with the consent of Able Might.

Appointment of director: The board of directors of Shunying shall comprise at least three directors during the continuance of the Shareholders' Agreement (namely and initially Mr. Edmond Lee, Ms. Roletta Lee and Dr. Raymond Lee, but subject to their respective consent of appointment). Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and (if relevant) Mr. Alex Wong shall comply with directions of Able Might so that Able Might is able to appoint and remove at any time any directors of Shunying.

The Cambodian Registered Owners shall act in accordance with the directions of Able Might as and when they exercise their rights as directors of Shunying or any of its subsidiaries, whether individually or collectively, including but limited to voting right for resolutions of the board of directors.

Voting arrangement in shareholders' meeting:

The Cambodian Registered Owners shall act in accordance with the directions of Able Might as and when they exercise their rights as shareholders of Shunying or any of its subsidiaries, whether individually or collectively, including but limited to voting right for shareholders' resolutions of Shunying.

The Cambodian Registered Owners shall execute the Initial POAs and the Additional POAs respectively appointing Mr. Li King Wai Ross, an executive Director (as well as his successor including liquidator replacing him as a Director) as their attorney and to vote on their behalf in any shareholders' meetings of Shunying.

At the request of Able Might from time to time, the Cambodian Registered Owners shall respectively sign and renew their respective appointment of attorney(s) and proxy appointing the attorney(s) as referred to in the paragraph above and/or execute new appointment of power of attorney and proxy (in the form and substance as provided by Able Might) to enable Able Might to vote on their behalf in any shareholders' meetings of Shunying.

Additional Financing:

Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong acknowledge that Shunying may require further fund to finance its development (including but not limited to the completion of purchase of the Land, construction and repair of factories and machines as well as any other necessary operating costs of Shunying's pulp and paper manufacturing business in Cambodia) and agree that upon request from Shunying, Able Might may advance shareholder's loan to Shunying on normal commercial terms as to interest, repayment and security compatible with its needs.

Except as otherwise provided in the Shareholders' Agreement, none of Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong shall be obliged to provide any capital to Shunying by way of subscription for further Shunying Shares or by way of loans unless they agree on the amount and method of providing the finance.

Further undertakings  
and covenants:

Each of the Cambodian Registered Owners and Shunying jointly and severally agree and undertake that, without the prior written consent of Able Might, Shunying shall not (and the Cambodian Registered Owners shall procure Shunying not to) enter into any transaction that may affect Shunying's assets, obligations, business or operations, including but not limited to the following:

- (a) conducting business beyond the usual and normal scope of business of or inconsistent with past practice of Shunying;
- (b) approving merger, consolidation, acquisition or restructuring of Shunying's main business or assets, or otherwise any kind of acquisition or investment;
- (c) providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of Shunying;
- (d) supplementing or modifying the articles of association of Shunying, increasing or decreasing Shunying's registered capital or otherwise changing Shunying's registered capital structure;
- (e) distributing dividends or equity entitlements unless with written request from Able Might. After such distribution, each of the Cambodian Registered Owners shall transfer all such dividends or equity entitlements to Able Might at nil consideration;
- (f) entering into any agreement which will be in conflict with any of the VIE Documents or the interest of Able Might under any of the VIE Documents;
- (g) selling, transferring, pledging, mortgaging or otherwise disposing of any equity interest in Shunying or any assets, business, income or rights of Shunying; and
- (h) terminating, dissolving or liquidating Shunying and distributing its remaining assets.



Shunying agrees and undertakes to Able Might that it shall and each of the Cambodian Registered Owners shall procure Shunying to, among other things:

- (a) unconditionally accept proposals raised by Able Might, including but not limited to the engagement and replacement of employees, daily operations, dividend distribution and financial management systems of Shunying and Shunying shall strictly abide by and perform accordingly;
- (b) implement business policies and management decisions of Shunying as determined solely by Able Might;
- (c) conduct Shunying's business in the ordinary course of business to maintain the asset value of Shunying and refraining from any act or omission that may adversely affect Shunying's operation and asset value;
- (d) set up the financial and accounting system of Shunying in accordance with the laws and regulations of Cambodia and the audit requirements of the Company, and appoint such person(s) as nominated by Able Might as the chief financial officer of Shunying, who shall be responsible for the management of financial matter of Shunying;
- (e) permit Able Might to inspect Shunying's accounts regularly and at any time, and at Able Might's request, provide Able Might with relevant information, provide information regarding Shunying's operation, business, customers, finance, staffing, etc. for Able Might, its auditors and/or other professionals for any audit and due diligence exercise, and allow Able Might and its shareholders to disclose such information in accordance with relevant securities regulations;
- (f) if requested by Able Might in writing, pledge all receivables and all other assets as security for performing its obligations to pay the shareholders' loans made by or otherwise owed to Able Might;

- (g) immediately notify Able Might of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Shunying's assets, business or revenue, and any circumstances which may have a material adverse effect on Shunying's business and operations, and make its best endeavour to avoid such circumstances and/or mitigate the loss arising thereof; and
- (h) comply with any applicable Cambodian laws and regulations for the management and operation of the Factory.

Each of the Cambodian Registered Owners and Shunying also jointly and severally agrees and undertakes that Shunying shall not (and each of the Cambodian Registered Owners shall procure Shunying not to) take or omit to take any action which may lead to conflicts of interest with Able Might or Able Might's shareholders.

(5) Initial Spousal Undertakings

Date: 21 June 2021

Covenantors: The spouse of each of Mr. Edmond Lee and Ms. Roletta Lee

Undertakings: The spouse of Mr. Edmond Lee or of Ms. Roletta Lee (each as a covenantor under the respective Initial Spousal Undertaking) irrevocably agrees and undertakes to the Company, Able Might and Shunying that, among other things:

- (a) all interests held by his/her spouse (i.e. Mr. Edmond Lee or Ms. Roletta Lee, as the case may be) in Shunying and all benefits generated from these interests (such as dividend generated from their Shunying Shares) do not form part of the matrimonial property between the covenantor and his/her respective spouse, and that all such interests shall belong solely to his/her spouse (i.e. Mr. Edmond Lee or Ms. Roletta Lee, as the case may be);

- (b) no consent or rectification is needed from the covenantor in case his/her spouse (i.e. Mr. Edmond Lee or Ms. Roletta Lee, as the case may be) executes any agreements or legal documents to perform, amend or supplement any agreements or documents executed for the VIE Documents, nor shall the consent from the covenantor be required in the event that his/her spouse (i.e. Mr. Edmond Lee or Ms. Roletta Lee, as the case may be) is required to take any such actions as may be reasonably necessary to fulfill his/her obligations and responsibilities pursuant to the VIE Documents; and
- (c) if for whatever reasons the covenantor obtains any interests in Shunying originally held by his/her spouse (i.e. Mr. Edmond Lee or Ms. Roletta Lee, as the case may be), the covenantor agrees that he/she shall transfer all such interests in Shunying to Mr. Edmond Lee or Ms. Roletta Lee (as the case may be) as soon as practicable, failing which he/she shall be bound by the VIE Documents signed by his/her spouse and shall assume and perform any obligations and responsibilities pursuant to the VIE Documents, and that the covenantor shall only deal with such interests in accordance with the directions of the Company and/or Able Might.

Term: The Initial Spousal Undertakings shall take effect immediately upon the execution of the Initial Spousal Undertakings and shall be terminated in the event that the Share Acquisition does not complete pursuant to the Share Acquisition Agreement.

(6) Mortgage Agreement

Date: 21 June 2021

Parties: (1) Shunying (as mortgagor)  
(2) Able Might (as mortgagee)

Conditions: The creation and registration of the hypothec with the land management authority of Cambodia is conditional upon the Certificate(s) of Immovable Property Ownership (i.e. hard title) of the Land having been granted to and having been issued under the name of Shunying.

Mortgaged Properties and Secured Obligations: Shunying agrees to mortgage the Land and other properties as may be affixed to the Land on or after the date of the Mortgage Agreement to secure its obligations to pay the outstanding amount of shareholders' loan owed or to be owed from Shunying to Able Might (including the Loans) and (if any) all interest, default interest or other charges charged on any of the foregoing.

Restrictive covenant of the mortgagor:	Shunying shall not transfer, sell, share, sub-let, rent, exchange, gift, and contribution in fund or use the mortgaged properties to secure other obligations without the acknowledgment of and written approval from Able Might.
Registration of the mortgage:	Shunying shall, within 30 working days upon the availability of each Certificate(s) of Immovable Property Ownership forming all or any part of the Land, notify the creation of the hypothec over such Certificate(s) of Immovable Property Ownership and register such hypothec with the land management authority of Cambodia. Shunying shall take all necessary actions to effect execution and submission of all prescribed forms and documents required by the cadastral authorities, and adoption of any corporate resolutions required for entry of the Mortgage Agreement and execution of the prescribed forms.
Enforcement of the mortgage:	<p>To the greatest extent as the Cambodian laws permit, Able Might shall be entitled to enforce its right over the mortgaged properties if any one of the following events (amongst others) occurs:</p> <ul style="list-style-type: none"> <li>(a) Shunying fails to perform or discharge the secured obligations or obligations under the Mortgage Agreement;</li> <li>(b) the mortgaged properties shall be disposed in order to cause Shunying to perform its obligations pursuant to provisions of laws;</li> <li>(c) any order has been made or any petition shall have been presented or any resolution has been passed or any meeting has been convened for the purpose of considering a resolution for the winding up, dissolution or liquidation of Shunying or the establishment of a liquidation group; or any steps shall have been taken to appoint a liquidator, administrator, receiver, compulsory manager, provisional supervisor or other similar officer for Shunying or its assets, or there are circumstances which, under any applicable law, would justify any such proceedings;</li> <li>(d) there are proceedings under any applicable insolvency or reorganisation laws concerning Shunying;</li> </ul>

- (e) Shunying is or is presumed or deemed to be insolvent or unable to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; or
- (f) the occurrence of any of the events of default under loan agreements entered or to be entered into between Able Might and the respective shareholders of Shunying (including the Initial Loan Agreement and the New Loan Agreement).

### ***New VIE Documents***

As soon as practicable but no later than the fifth business day (or such later date as Able Might may agree in writing) after both Dr. Raymond Lee and Mr. Alex Wong obtain Cambodian nationality, (i) each of Able Might, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong will enter into the New Loan Agreement and New Share Pledge Agreements in place of the Initial Loan Agreement and the Initial Share Pledge Agreements; (ii) each of Dr. Raymond Lee and Mr. Alex Wong will give an Additional POA; and (iii) Mr. Alex Wong will give the Additional Spousal Undertaking. The New Loan Agreement, the New Share Pledge Agreements, the Initial POAs, the Additional POAs, the Shareholders' Agreement, the Initial Spousal Undertakings, the Additional Spousal Undertaking and the Mortgage Agreement will form the New VIE Documents and enable Able Might to continue to have control over and enjoy economic benefits of such Shunying Shares registered under the names of the Cambodian Registered Owners.

Further announcement(s) will be made by the Company on the New VIE Documents as and when necessary as required by the Listing Rules.

### **Other Aspects Under VIE Documents**

#### ***Dispute resolution***

The Initial VIE Documents (save for the Initial Spousal Undertakings, which are governed by Hong Kong law) are governed by and will be construed in accordance with the Cambodian laws. Pursuant to such Initial VIE Documents, any dispute arising therefrom between the parties shall be referred to and finally resolved by National Commercial Arbitration Centre in the Kingdom of Cambodia for arbitration. The sole arbitrator may award remedies over the Shunying Shares and/or land assets of Shunying, injunctive relief (e.g. for conduct of business or mandatory transfer of assets) and/or order the winding up of Shunying. The results of the arbitration shall be final and conclusive and binding. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction (such as courts in Hong Kong, Cayman Islands, Cambodia and locations where the principal assets of the Company or Shunying are located).

The Initial VIE Documents (save for the Initial Spousal Undertakings) also include a dispute resolution clause whereby the parties to the Initial VIE Documents may seek interim remedies in support of any arbitration commenced but pending, in particular, the appointment of arbitrator and/or formation of necessary arbitral panel/tribunal from any courts of competent jurisdictions (which shall include courts in Hong Kong, Cayman Islands, Cambodia and locations where the principal assets of the Company or Shunying are located).

### ***Succession***

The provisions set out in the Initial Loan Agreement, the Initial Share Pledge Agreements, the Initial POAs and the Shareholders' Agreement are also binding on the successors of the Cambodian Registered Owners, as if their successors were signing parties to the relevant Initial VIE Documents.

Although the above Initial VIE Documents do not specify the identity of successors to the Cambodian Registered Owners, under the succession law of Cambodia, the successor line of an individual includes children (in first line), parents (in second line) and siblings (in third line), while spouse is a permanent successor with inherent right equal to the person(s) in the succession line. Any breach by their successors would be deemed to be a breach of the above Initial VIE Documents by the Cambodian Registered Owners.

However, the Cambodian law provides that the agency conferred by a principal via contract shall be extinguished by, among other things, the death, bankruptcy or dissolution of the principal or the death or bankruptcy of the agent, or a restriction upon the agent's capacity to act. Therefore, upon the occurrence of any of the abovementioned circumstances to either the principal (i.e. the Cambodian Registered Owners in the Initial POAs) or agent (i.e. the "Attorney" in the Initial POAs), the Initial POAs could be deemed extinguished. In such event, the heirs, successors and assigns of the parties may not be able to assert the rights granted pursuant to the Initial POAs subsequent to the occurrence of these events.

### ***Liquidation, bankruptcy or divorce***

51% of the total number of issued Shunying Shares, which are owned by the Cambodian Registered Owners, are pledged to Able Might under the Initial Share Pledge Agreements to secure, among other things, any loan advanced or to be advanced by Able Might to the respective Cambodian Registered Owners (i) under the Initial Loan Agreement; or (ii) otherwise related to Shunying. In case of any breach of such obligations, Able Might is entitled to enforce such pledges.

Able Might is also entitled to enforce the pledges in the event that, among other things, (i) any of the Cambodian Registered Owners or Shunying is or is presumed or deemed to be insolvent or unable to pay its debts as they fall due; or (ii) any steps have been taken to appoint a liquidator, receiver, administrator, administrative receiver, compulsory manager, provisional supervisor or other similar officer in respect of Shunying or its assets.

In addition, Shunying gives a mortgage over the Land and other properties as may be affixed on the Land in favour of Able Might by entering into the Mortgage Agreement, and the creation and registration of the hypothec is conditional upon the Certificate(s) of Immovable Property Ownership (i.e. hard title) of the Land having been granted to and having been issued under the name of Shunying. Able Might may enforce the mortgage in the event that, among other things, (i) Shunying is or is presumed or deemed to be insolvent or unable to pay its debts as they fall due; or (ii) any steps have been taken to appoint a liquidator, receiver, administrator, administrative receiver, compulsory manager, provisional supervisor or other similar officer in respect of Shunying or any of its assets.

Based on the above, the Cambodian Legal Adviser is of the view that in the event of bankruptcy of any Cambodian Registered Owners or a dissolution or liquidation of Shunying, a liquidator may seize and deal with the Shunying Shares held by the Cambodian Registered Owners and the assets which are attributable to the Cambodian Registered Owners in Shunying based on the VIE Documents for the benefit of Able Might.

In addition, the spouses of Mr. Edmond Lee and Ms. Roletta Lee have given undertakings in relation to the interest in Shunying Shares and the VIE Documents in the event of divorce, the details of which are set out in the paragraph headed “VIE Structure – Details of the VIE Documents – Initial VIE Documents – (5) Initial Spousal Undertakings” in this announcement.

### ***Conflicts of interest***

Pursuant to the Shareholders’ Agreement, Shunying shall not (and each of the Cambodian Registered Owners shall procure Shunying not to) take or omit to take any action which may lead to conflicts of interest with Able Might or Able Might’s shareholders. If there is any conflict of interest, Able Might shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable laws.

Under the Initial POAs, as long as the Cambodian Registered Owner serves as a director or senior management in the Group, he/she shall assign the interest and power under the relevant Initial POAs to the attorney.

### **Opinions of the Cambodian Legal Adviser**

The Cambodian Legal Adviser has confirmed to the Group that:

- (i) the execution of the Share Acquisition Agreement and the VIE Documents (other than the Initial Spousal Undertakings and the Additional Spousal Undertakings, which are governed by the laws of Hong Kong) is legally valid and in compliance with Cambodian laws, rules and regulations including those applicable to the business of Shunying, which constitutes binding and enforceable rights and obligations among the parties to the respective documents;
- (ii) the VIE Structure is legally valid and enforceable, which is also in compliance with Cambodian laws, rules and regulations;



- (iii) the VIE Documents and the VIE Structure in place do not violate the Foreign Ownership Restriction or other Cambodian laws, and do not constitute a breach to the laws and regulations of Cambodia which prohibit foreign investors to directly or indirectly own land and real properties;
- (iv) the VIE Documents are not regarded as concealing illegal intentions with a lawful form which would constitute a breach of Cambodian laws, rules and regulations prohibiting foreign ownership; and
- (v) with the arrangements under the VIE Structure in place, Able Might is able to exercise control over and enjoy the economic benefits of Shunying upon the Share Acquisition Completion, as well as the Land upon the Land Acquisition Completion.

### **Internal control measures to be implemented by the Group**

The VIE Documents contain certain provisions in order to enable Able Might to exercise effective control over and to safeguard the assets of Shunying. In addition to the internal control measures as provided in the VIE Documents, the Company intends to adopt the following internal control measures through Able Might after the Share Acquisition Completion has taken place, with regard to the internal control practice within the Group from time to time:

#### *Management controls*

- (a) the Group will appoint one representative (other than Mr. Edmond Lee, Dr. Raymond Lee and their associates) (the “**Representative**”) overseeing and exercising management measures controls over Shunying. The Representative will conduct regular reviews on the operations of Shunying, and is required to provide opinions on behalf of the Company to the board of Shunying and decide on major issues based on the Company’s opinions or instructions;
- (b) the Representative shall be actively involved in various aspects of the daily managerial and operational activities of Shunying;
- (c) the Representative shall report any major events of Shunying to the Chief Executive Officer of the Company (the “**CEO**”) or relevant management personnel as designated by the CEO, who shall in turn report to the Board;
- (d) the CEO and any person(s) authorized by him/her shall conduct regular site visits to Shunying and conduct personnel interviews, and submit reports to the Board for the visits; and
- (e) all seals, chops, incorporation documents and all other legal documents of Shunying (to the extent permitted by Cambodian law and as far as practicable in terms of the management and operation of Shunying) shall be kept at the locations as designated by Able Might.

### *Financial supervision*

- (f) the CEO or relevant management personnel responsible for financial matters and any person(s) authorized by him/her shall collect monthly management accounts, statements of all bank accounts and cash balances and major operational data of Shunying within 15 days after each month end for review, and they shall timely report any suspicious matters to the Board; and
- (g) Shunying shall assist and facilitate the Company to conduct all on-site internal audits on Shunying if required by the Company.

### *Legal review and monitoring*

- (h) the Representative will consult a competent Cambodian legal adviser from time to time to keep abreast of any latest legal developments in the Cambodia affecting the arrangement contemplated under the VIE Documents, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment to the VIE Documents is required to be made;
- (i) the Board shall conduct regular reviews on the implementation and performance of the VIE Documents and engage legal advisers and/or other professional parties to deal with specific issues arising from the VIE Documents, if necessary; and
- (j) the Board shall regularly review and discuss the compliance matters and regulatory enquiries from Cambodian governmental authorities in respect of the implementation and performance of the VIE Documents (if any).

### **Views of the Directors**

Based on the arrangements under the VIE Documents and the opinions of the Cambodian Legal Adviser, the Directors are of the view that (i) the control and enjoyment of economic benefits of Shunying will be conferred to the Group upon the Share Acquisition Completion and implementation of the VIE Structure; and (ii) the control and enjoyment of economic benefits of the Land will also be conferred to the Group upon the Land Acquisition Completion.

In the event of death, bankruptcy or loss of capacity of any of the Cambodian Registered Owners, the VIE Documents provided that his/her heirs, successors and assigns shall also be bound by the rights and obligations thereunder. Based on such mechanism and advice of the Cambodian Legal Adviser, the Directors are of the view that the Group's interests in Shunying and the Land are sufficiently protected in the event of death, bankruptcy or loss of capacity of any of the Cambodian Registered Owners and any practical difficulties in enforcing the VIE Documents can be avoided.

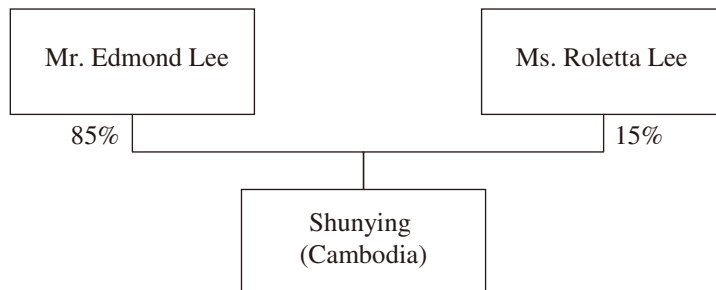
Notwithstanding the VIE Structure in place, the Group intends that, and the Initial Loan Agreement and the Initial Share Pledge Agreements have also provided that, when Able Might is allowed to be registered as the owner of the issued Shunying Shares held by the Cambodian Registered Owners and/or own Cambodian land (including the Land), at the election of Able Might, the VIE Structure will be unwinded and the VIE Documents will be terminated. Mr. Edmond Lee and Ms. Roletta Lee have undertaken, and Dr. Raymond Lee and Mr. Alex Wong will undertake, to transfer to Able Might all issued Shunying Shares (other than the Sale Shares) registered under their names in nil consideration and return to Able Might any consideration they receive in the course of such share transfers.

The Directors have discussed with its auditors and confirmed that, upon the Share Acquisition Completion and implementation of the VIE Structure, the Group has the right to consolidate and will consolidate the financial results of Shunying into those of the Group as if Shunying were an indirectly wholly-owned subsidiary of the Company and being controlled by the Group.

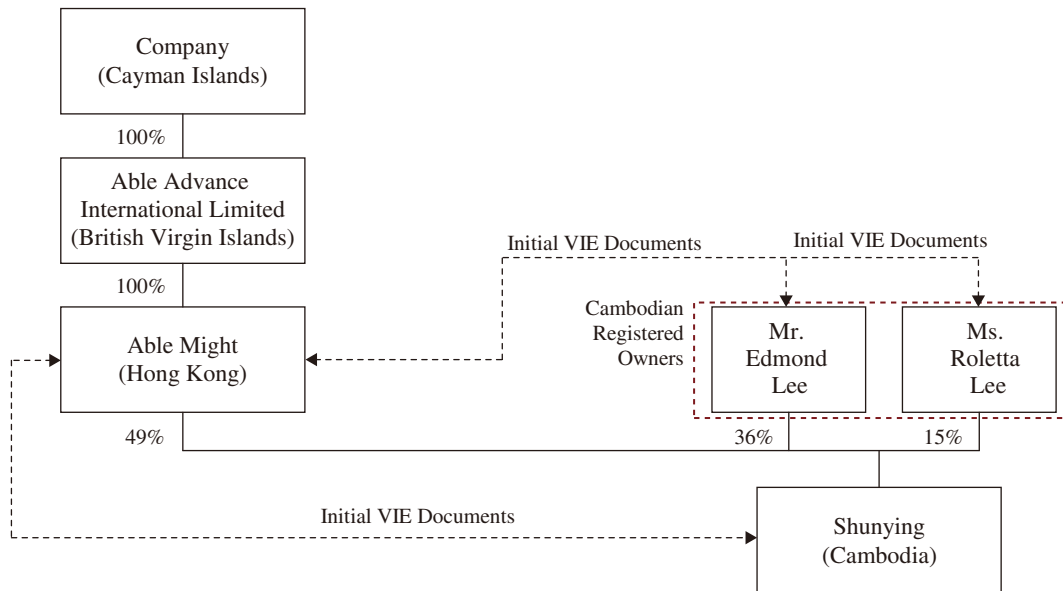
### **SHAREHOLDING STRUCTURE OF SHUNYING**

Set out below are the shareholding structures of Shunying (i) as at the date of this announcement; (ii) immediately after the Share Acquisition Completion but before the Other Share Transfer and the Land Acquisition Completion; and (iii) immediately after the Share Acquisition Completion, the Other Share Transfer and the Land Acquisition Completion.

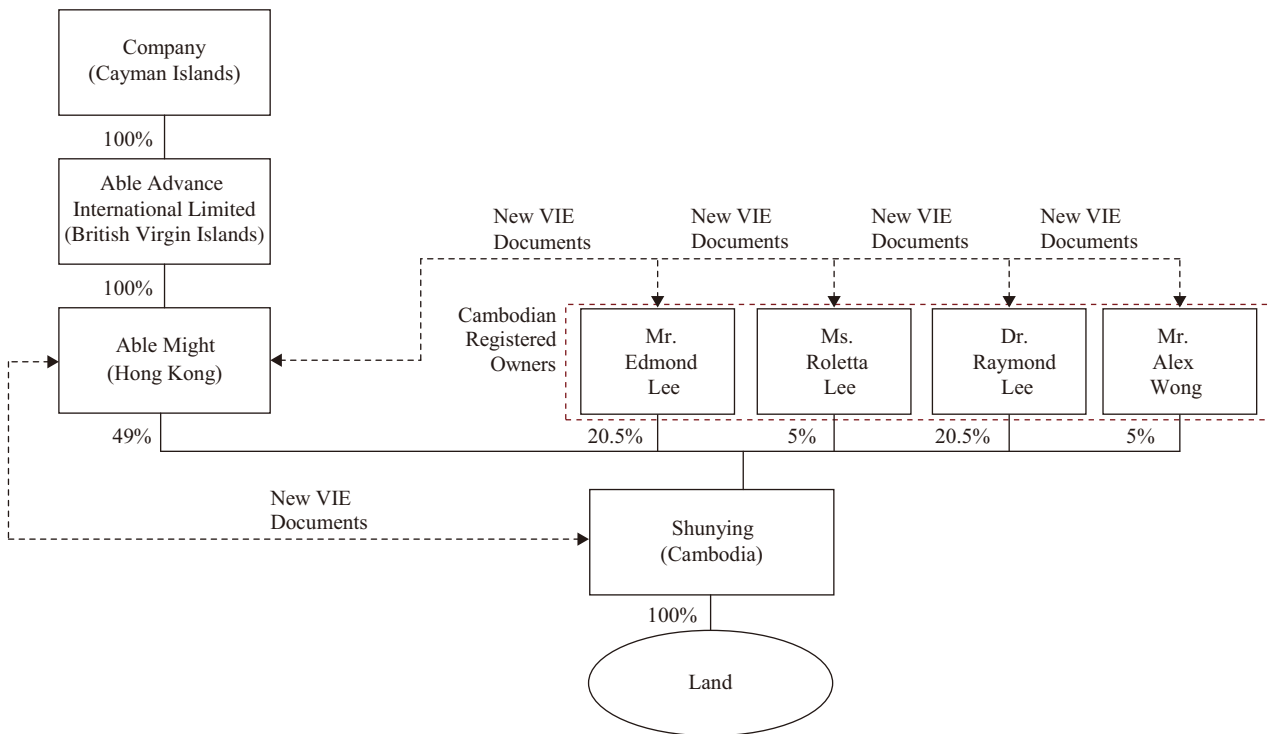
#### **Shareholding structure as at the date of this announcement**



**Shareholding structure immediately after the Share Acquisition Completion but before the Other Share Transfer and the Land Acquisition Completion**



**Shareholding structure immediately after the Share Acquisition Completion, the Other Share Transfer and the Land Acquisition Completion**



## SERVICE AGREEMENT

Upon the Share Acquisition Completion, Able Might is prepared to support, together with the Cambodian Registered Owners, the ongoing performance of Shunying of its obligations under the Cambodian Land SPA, so that upon the Land Acquisition Completion, Shunying will own the Land and build the Factory on the Land. To facilitate the operation of Shunying's pulp and paper manufacturing business in Cambodia, on 21 June 2021, Able Might, Shunying and Heng Yick entered into the Service Agreement, pursuant to which Heng Yick has been appointed as a consultant to Shunying for the provision of the Services.

The principal terms of the Service Agreement are set out below:

Date: 21 June 2021

Parties: (1) Able Might  
(2) Shunying  
(3) Heng Yick

Conditions: The Service Agreement shall be conditional upon (i) the Share Acquisition Completion in accordance with the Share Acquisition Agreement; (ii) the Land Acquisition Completion in accordance with the Cambodian Land SPA; and (iii) the Factory coming into operation and selling its products (whether directly or indirectly, or through any agent or otherwise).

If any of the above conditions is not satisfied on or before 31 December 2023 (or such other date as the Parties may agree in writing), Shunying can elect to terminate the Service Agreement.

Scope of Services: Heng Yick shall, during the term of the Service Agreement, provide Shunying with the following consulting and advisory services in relation to the operation of Shunying's pulp and paper manufacturing business in Cambodia, including:

- (a) advising Shunying in overseeing and monitoring the manufacturing process and products of Shunying ensuring that the same comply with relevant Cambodian environmental laws and regulations, including waste water discharge, waste disposal and waste burial;
- (b) assisting Shunying in liaising with relevant parties and government authorities to facilitate management, conduct and development of its pulp and paper manufacturing business in Cambodia and the Factory;

- (c) advising Shunying in matters relating to the operating and management systems, internal control, hiring, and procurement of machines, equipment and raw materials of the Factory;
- (d) advising Shunying in handling relevant approval documents and administrative processes for import of machines, equipment, construction materials and other infrastructures for use of the Factory;
- (e) advising Shunying in hiring senior management of Shunying or for the Factory;
- (f) advising Shunying in formulating business plans and development strategies;
- (g) reviewing Shunying's business and operational conditions from time to time from a strategic perspective, with an aim to giving advice to improve its business performance and maximise its value;
- (h) evaluating the core strength and potential of Shunying, and advising on the development of sales and marketing strategies of Shunying;
- (i) advising Shunying on good financial and business standards and practices;
- (j) introducing business opportunities to Shunying; and
- (k) introducing suppliers to Shunying.

Service Fees:

Shunying shall pay (or failing which Able Might shall pay) the service fees to Heng Yick on a monthly basis. The service fees shall be equivalent to 5% of Shunying's monthly sales revenue generated from its sales (i.e. per unit sales price x the number of units sold in respect of each product) arising from the operation of pulp and paper manufacturing business in Cambodia after deducting all production and operating costs, depreciation expenses of plant and machinery, finance costs, as well as relevant profit tax (if any), in each case, directly and exclusively associated with the generation of the said sales revenue and as calculated and determined in a manner consistent with applicable accounting principles for Shunying for the preparation of the management accounts and subject to the exclusions as set out in the Service Agreement.

The service fees shall be payable within 37 days after the end of each month (that is, reserving 30 days for the preparation of the management accounts and 7 days for arranging payments).

**Term:** The term of the Service Agreement shall be 3 years commencing from the date on which the Service Agreement becoming unconditional, unless terminated earlier pursuant to the Service Agreement.

Subject to compliance with the requirements of the Listing Rules, the Service Agreement shall be automatically renewed for successive periods of 3 years (or such other period permitted under the Listing Rules) upon expiry of the initial term or subsequent renewed terms unless terminated earlier pursuant to the Service Agreement.

### **Annual Caps**

The proposed annual caps in respect of the Services for each of the three years ending 31 December 2026, being the first three years after the Factory comes into operation and starts to sell its products, are US\$4,330,000, US\$8,660,000 and US\$8,660,000, respectively.

In arriving at the annual caps, the Directors have taken into account (i) the estimated production capacity of the Factory; (ii) the estimated sale revenue of the Factory; (iii) the estimated growth in sales price and demand for paper products in the PRC and Southeast Asian countries; and (iv) the terms and the service fee model of a similar service agreement entered into by the Group with a business partner in Southeast Asia (which is an Independent Third Party) for providing similar consulting and advisory services.

### **INFORMATION OF HENG YICK**

Heng Yick is a company incorporated under the laws of Hong Kong with limited liability. As at the date of this announcement, Heng Yick is wholly-owned by Ms. Roletta Lee, who in turn is a sister of Mr. Edmond Lee and Dr. Raymond Lee. Heng Yick is an investment holding vehicle of Ms. Roletta Lee.



## **REASONS AND BENEFITS OF THE TRANSACTIONS**

### **Share Acquisition, Loan Assignment and VIE Structure**

The Group is principally engaged in large-scale paper manufacturing and specializes in the production of linerboard, corrugated medium and tissue paper.

As set out in the annual results announcement of the Company published on 2 March 2021, the Group targets the Southeast Asia market for international development, and to cope with the full import ban on waste paper in Mainland China effective from 2021, the Group will actively develop the recycled pulp business in Southeast Asia to replace imported waste paper and strengthen the allocation of raw materials in order to ensure its production cost advantage.

The Directors consider that by entering into the Share Acquisition Agreement and the VIE Documents, the Group would acquire indirect control of Shunying (which has in turn entered into the Cambodian Land SPA to acquire the Land for building the Factory), and therefore the transactions contemplated under the Share Acquisition Agreement and the VIE Documents would represent solid business opportunities of the Group based on the following reasons:

- (i) In light of the ban imposed by the PRC on import of waste paper (which is essential material for the Group's paper production), it would be commercially imperative for the Group to expand its operation scale in new locations outside of the PRC which allow import of pulp and waste paper for production. The approval from the Cambodian government on import of wood pulp and recovered paper caters for the need of the Group's business development of recycled pulp and expansion strategy in Southeast Asia;
- (ii) The Directors observe that many competitors of the Group have been gradually relocating their production units and/or expanding their business presence in Southeast Asian countries such as Vietnam, Thailand, Indonesia, etc., which had considerably driven down their production costs as well as associated labour costs. The Directors consider Cambodia as an appropriate country for investment taking into account (a) its sufficient land source for factory construction; (b) stable supply of labour force; (c) relatively low operation and labour costs; and (d) future prospect and potential growth of Cambodia economy;
- (iii) The Group considers that the Land is at a suitable location in Cambodia for the construction of the Factory. It is located in Kampot Province, which is one of the few provinces in Cambodia next to the Gulf of Thailand. The Group is allowed to build the Port on a site adjacent to the Land for economical import and/or export of recovered paper, wood pulp, raw materials and paper products. The Land is also connected to major urban areas in the south side of Cambodia by public roads. The Directors believe that the land transportations will facilitate the Group to gain access to the local market; and
- (iv) The Group is able to secure general approval and support from the Cambodian government for the construction of the Factory as well as the conduct of its pulp and paper manufacturing business in Cambodia. A cordial relationship with and supportive attitude of the Cambodian government is both facilitative and beneficial to the Group's intended expansion into the local market by providing a stable business environment as well as execution of the Group's overall business strategies in the region in the long term.

The Group has implemented the VIE Structure in order to exercise control over and enjoy economic benefits of Shunying. The Directors observe the following major uncertainties and risks in relation to the VIE Structure:

1. **If the Cambodian government or courts finds that the VIE Documents do not comply with Cambodian laws and regulations, or if the laws and regulations, or if their interpretations change in the future, Able Might may be forced to relinquish the Group's interests received through the VIE Documents.**

There can be no assurance that the VIE Documents will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable Cambodian laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Documents will be deemed not to be in compliance with the Cambodian laws and regulations.

2. **The VIE Documents may not be as effective as direct ownership of shares in providing control over Shunying or its shareholders, who may fail to perform its obligations under the VIE Documents.**

Able Might will only own 49% of the total number of Shunying Shares and will rely on contractual arrangements under the VIE Documents with the Cambodian Registered Owners and Shunying to operate the principal business of Shunying in Cambodia. The VIE Documents may not be as effective as direct ownership of all voting shares in providing Able Might with control over Shunying. Direct ownership of Shunying would allow Able Might, for example, to directly or indirectly exercise its rights as a shareholder to effect changes in the board of directors of Shunying. However, under the VIE Documents, Able Might relies on the performance by the Cambodian Registered Owners of their obligations under the VIE Documents to exercise control and enjoy economic benefits over Shunying. In addition, if any of the Cambodian Registered Owners or Shunying fails to perform their respective obligations under the VIE Documents or otherwise have disputes with Able Might, Able Might may have to initiate arbitration or other legal proceedings and rely on legal remedies under Cambodian laws which may be limited and involve significant uncertainty. There can be no assurance that the outcome will be in favour of Able Might and it may adversely affect Able Might's ability to control Shunying.

3. **The shareholders of Shunying may have conflicts of interest with Able Might, which may materially and adversely affect Able Might's business and financial conditions.**

Able Might's control over Shunying is based upon the contractual arrangements under the VIE Documents, among others, entered into among Able Might, the Cambodian Registered Owners and/or Shunying. If the Cambodian Registered Owners do not act completely in Able Might's interests or the conflicts of interest between Able Might and them are not resolved in Able Might's favour, Able Might's business and financial condition may be materially and adversely affected. Such risk is however mitigated by the fact that Mr. Edmond Lee and Dr. Raymond Lee are Directors and thus subject to the directors' duties under the law of Cayman Islands and the Listing Rules to avoid conflict of interest.

4. **Able Might may encounter delay or other obstacles in enforcing the VIE Documents under Cambodian laws which may materially and adversely affect Able Might's ability to exercise control over Shunying.**

The VIE Documents (other than the Initial Spousal Undertakings and the Additional Spousal Undertaking) are governed by Cambodian laws and the VIE Documents would accordingly be interpreted in accordance with Cambodian laws. Any dispute arising from interpretation or enforcement of the VIE Documents will be resolved in accordance with Cambodian legal procedures and requirements. Furthermore, the VIE Documents include provisions that all disputes so arising will be submitted for arbitration in Cambodia and the ruling of which will be final and binding.

However, in the event that Able Might chooses to enforce the VIE Documents, there can be no assurance that Able Might will be granted favourable judgments or rulings through court proceedings or arbitration procedures in Cambodia. In addition, Able Might may suffer significant delay or other obstacles in the process of enforcement. In such an event, Able Might may not be able to obtain favourable and sufficient legal remedies in a timely manner, which may materially and adversely affect Able Might's ability to exercise control over Shunying.

5. **Able Might may not be able to assert the rights granted pursuant to the POAs subsequent to the death or bankruptcy of the Cambodian Registered Owners, etc.**

The Cambodian law provides that the agency conferred by a principal via contract shall be extinguished by, among other things, the death, bankruptcy or dissolution of the principal or the death or bankruptcy of the agent, or the loss of the agent's capacity to act. Therefore, upon the occurrence of any of the abovementioned circumstances to either the principal (i.e. the Cambodian Registered Owners in the POAs) or agent (i.e. the "Attorney" in the POAs), the POAs could be deemed extinguished. In such event, Able Might may not be able to assert the rights granted pursuant to the POAs against the heirs, successors and assigns of the parties subsequent to the occurrence of these events.

6. **Able Might does not have any insurance which covers the risks relating to the VIE Documents and the transactions contemplated thereunder.**

The insurance of Able Might does not cover the risks relating to the VIE Documents and the transactions contemplated thereunder and Able Might has no intention to purchase any insurance in this regard. However, Able Might will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, Able Might will implement relevant internal control measures to reduce the operational risk. Able Might will continue evaluating the feasibility, the costs and benefits of procuring insurance for the transactions under the VIE Documents.

Notwithstanding the aforesaid uncertainties and risks in relation to the VIE Structure, after taking into account the commercial benefits as outlined above, the Directors (excluding Dr. Raymond Lee, Mr. Edmond Lee and Mr. Li King Wai Ross who have abstained from voting but including the independent non-executive Directors) are of the view that (i) the terms of the Share Acquisition Agreement and the VIE Documents are fair and reasonable in so far as the Company and independent Shareholders are concerned; and (ii) the transactions contemplated under the Share Acquisition Agreement and the VIE Documents are on normal commercial terms, incidental to the ordinary and usual course of business of the Group, and are in the best interests of the Company and the Shareholders as a whole.

### **Service Agreement**

Heng Yick is a company wholly-owned by Ms. Roletta Lee who has extensive business experience and network in Southeast Asia and Cambodia necessary for the business of Shunying. In order to facilitate the operation of Shunying's pulp and paper manufacturing business in Cambodia, the Directors are of the view that it would be beneficial and necessary for the Group to appoint Heng Yick for the provision of the Services based on the following reasons:

- (i) Ms. Roletta Lee has for many years been liaising, coordinating and managing manufacturing businesses and construction of factories in Southeast Asian countries, including but not limited to securing relevant approvals and business operation licences from government authorities, negotiating terms of engagement of key personnel, as well as overseeing and managing subsequent business investments in Southeast Asian countries. Furthermore, Ms. Roletta Lee possesses considerable knowledge and experience in pulp and paper business, such as sourcing of raw materials, manufacturing processes as well as sales and distribution of products in Southeast Asia;
- (ii) Ms. Roletta Lee has played a pivotal role in exploring new location for the Group's business expansion and the identification of land suitable for building the Factory. In the course of doing so, Ms. Roletta Lee has acquired relevant knowledge and established necessary connections with the Cambodian government authorities and local community for conducting pulp and paper manufacturing business. She has helped the Group to secure the necessary approval and support from local governments for the building of the Factory and the Port. As the Group does not possess experience in operating pulp and paper manufacturing business in Cambodia, Ms. Roletta Lee's local knowledge and experience would therefore be highly relevant and valuable for the Group to operate and develop Shunying's business in Cambodia. It would therefore be reasonable and cost-efficient for the Group to have Heng Yick, which is wholly-owned by Ms. Roletta Lee, to act as the consultant to Shunying and to continue the work in facilitating the Group's pulp and paper manufacturing business in Cambodia as well as fostering workable and cordial business relationship between the Group and the Cambodian government in the foreseeable future; and

- (iii) On the other hand, Ms. Roletta Lee is also prepared to commit herself on a long-term basis and is willing to make various business arrangements for the Group's Cambodian project, including but not limited to assuming the position as a director of Shunying as well as travelling and staying in Cambodia on a regular basis for the project. Consequently, Ms. Roletta Lee is considered an ideal candidate to provide stable and on-going consulting and advisory Services to the Group.

Taking into account the scope of Services to be provided by Heng Yick and the factors set out above, the Directors (excluding Dr. Raymond Lee, Mr. Edmond Lee and Mr. Li King Wai Ross who have abstained from voting but including the independent non-executive Directors) are of the view that (i) the terms of the Service Agreement are fair and reasonable in so far as the Company and independent Shareholders are concerned; (ii) the Service Agreement is on normal commercial terms, incidental to the ordinary and usual course of business of the Group, and are in the best interests of the Company and the Shareholders as a whole; and (iii) the annual caps in respect of the Services to be provided under the Service Agreement are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

### **IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, Shunying is owned as to 85% and 15% by Mr. Edmond Lee and Ms. Roletta Lee respectively. Mr. Edmond Lee is an executive Director and the Chief Executive Officer of the Company. Dr. Raymond Lee is an executive Director and the Chairman of the Company. Heng Yick is wholly owned by Ms. Roletta Lee, who is a sister of both Mr. Edmond Lee and Dr. Raymond Lee. As a result, each of Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee, Shunying and Heng Yick are connected persons of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Share Acquisition Agreement constitute a connected transaction of the Company, and the transactions contemplated under the Initial VIE Documents, the New VIE Documents and the Service Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of each of (i) the Share Acquisition and the Loan Assignment both pursuant to the Share Acquisition Agreement; (ii) the transactions under the VIE Documents; and (iii) the Service Agreement exceed 0.1% but are less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the Transactions are only subject to the announcement, reporting and (in respect of the transactions contemplated under the VIE Documents and the Service Agreement only) annual review requirements, but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements.

Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement for a continuing connected transaction of a listed issuer must not exceed three years except in special circumstances. As the terms of the VIE Documents exceed three years, the Company has appointed the Independent Financial Adviser to explain the reasons that the VIE Documents require terms that are longer than three years and to confirm that it is normal business practice for documents of these types to be of such durations.



In such regard, the Independent Financial Adviser has considered the following factors:

- (a) As disclosed in this announcement, foreigners are not allowed to own any land in Cambodia according to the applicable Cambodian laws and regulations. Therefore, Able Might (the Company's indirectly wholly-owned subsidiary) has entered or will enter into a series of agreements and documents, namely the Initial VIE Documents and the New VIE Documents in order to (i) enable the Group to exercise control and enjoy economic benefits over Shunying; (ii) consolidate the financial results of Shunying into those of the Group; and (iii) exercise the control and enjoy the economic benefits flowing from the Land upon the Land Acquisition Completion;
- (b) Upon the Share Acquisition Completion and with the arrangements of the VIE Structure in place, the financial results of Shunying will be consolidated into those of the Group, and the entire economic benefits and risks of business operations of Shunying will be effectively flowed to Able Might. Given that the construction of the Factory by Shunying will expand the production capacity of the Group, which is in line with the business strategy of the Group to expand its operation scale, strengthen its production capacity and capture more opportunities for business development and performance growth in the paper market, the Directors are of the view that the VIE Structure will be a long-term arrangement of the Group. The Directors are also of the view that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs for renewal of the VIE Documents every three years or less. It is commercially desirable for the parties to enter into the VIE Documents without a fixed duration in order to secure revenue generated from Shunying and develop a stable business relationship with clients in the medium to long term until the Foreign Ownership Restriction on the Land is removed under the Cambodian laws and regulations; and
- (c) The Independent Financial Adviser has conducted research on announcements of companies listed on the Stock Exchange during the period from 1 June 2020 to the date of this announcement in relation to contractual arrangements adopted by Hong Kong listed companies to obtain control over a company operating businesses subject to foreign investment restrictions, and considers that the research results enable it to form a meaningful comparison for the duration of the VIE Documents as the results contain (i) a sufficient number of comparable transactions; (ii) comprehensive information for terms of the contractual arrangements for comparison purpose; and (iii) the details of contractual arrangements of similar nature. After taking into account the comparables in the research results, the Independent Financial Adviser notes that it is normal business practice for companies adopting contractual arrangements to enter into agreements of similar nature to the VIE Documents with duration of more than three years.

Based on the above, the Independent Financial Adviser is of the opinion that (i) the terms of the VIE Documents will allow the Group to control over and continuously enjoy the economic benefits derived from Shunying; and (ii) it is normal business practice for agreements of similar nature to the VIE Documents to be of duration of more than three years.

Dr. Raymond Lee and Mr. Edmond Lee are considered to have material interests in the Transactions and have therefore abstained from voting on the relevant Board resolutions in relation to the Transactions. Save as the aforesaid, no other Directors have any material interest in the Transactions or were required to abstain from voting on the relevant Board resolutions in relation to the Transactions. However, Mr. Li King Wai Ross (an executive Director and a brother-in-law of Mr. Edmond Lee, Ms. Roletta Lee and Dr. Raymond Lee) has voluntarily abstained from voting on the relevant Board resolutions in relation to the Transactions to avoid any perception of conflict of interest.

## **DEFINITIONS**

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

“Able Might”	Able Might Limited, a company incorporated under the laws of Hong Kong with limited liability, which is an indirectly wholly-owned subsidiary of the Company
“Additional POAs”	two powers of attorney and proxy to be executed by each of Dr. Raymond Lee and Mr. Alex Wong (as donor) separately to, among others, authorize Mr. Li King Wai Ross (as an executive Director) to deal with the management and operations of Shunying and exercise all rights of the donors as shareholders of Shunying, each an “Additional POA”
“Additional Spousal Undertaking”	the spousal undertaking to be executed by Mr. Alex Wong’s wife in favour of the Company, Able Might and Shunying in relation to certain undertakings for the New VIE Documents
“Board”	the board of Directors
“Cambodia”	the Kingdom of Cambodia
“Cambodian Land SPA”	the conditional land sales and purchase agreement dated 21 February 2020 entered into between Shunying and the Local Seller in relation to acquisition of the Land and access right in a site adjacent to the Land for Shunying or its nominee to build the Port as amended and supplemented by the supplemental agreements dated 22 January 2021 and 4 February 2021 entered into between Shunying and the Local Seller for the amendment to certain terms in the said land sales and purchase agreement

“Cambodian Legal Adviser”	Camlaw Jingsh Group, the legal adviser to the Group as to Cambodian laws
“Cambodian Registered Owners”	the Cambodian registered owners of Shunying which from the date of this announcement up to the completion of the Other Share Transfer are, Mr. Edmond Lee and Ms. Roletta Lee and on or after the completion of the Other Share Transfer, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong
“Company”	Lee & Man Paper Manufacturing Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Distribution”	including, any and all stock and/or liquidating dividends, distributions of property, returns of capital, interest, income and other forms of distribution made on or in respect of the pledged Shunying Shares and as further defined in each of the Initial Share Pledge Agreements and any and all cash and other property received in exchange for any pledged Shunying Shares, which the Cambodian Registered Owners are entitled to receive
“Dr. Raymond Lee”	Dr. Lee Man Chun Raymond, an executive Director and the Chairman of the Company
“ESIA”	Environmental and Social Impact Assessment
“Factory”	a pulp and paper manufacturing factory to be built by the Group on the Land after the Land Acquisition Completion
“Foreign Ownership Restriction”	the legal restrictions under the Cambodian laws and regulations on a foreign natural person or foreign legal entity to own land in Cambodia
“Group”	the Company and its subsidiaries
“Heng Yick”	Hong Kong Heng Yick Investment Company Limited, a company incorporated in Hong Kong with limited liability, which is wholly-owned by Ms. Roletta Lee
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China



“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed by the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), being the independent financial adviser having been appointed by the Board to give advice on the duration of the VIE Documents
“Independent Third Party”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Initial Loan Agreement”	the loan agreement dated 21 June 2021 entered into among Able Might (as lender), Mr. Edmond Lee and Ms. Roletta Lee (as borrowers) in respect of the loan facility of US\$510,000 provided by Able Might to Mr. Edmond Lee and Ms. Roletta Lee
“Initial POAs”	two powers of attorney and proxy dated 21 June 2021 executed by each of Mr. Edmond Lee and Ms. Roletta Lee (as donor) separately to, among others, authorize Mr. Li King Wai Ross (an executive Director) to deal with the management and operations of Shunying and exercise all rights of the donors as shareholders of Shunying, each an Initial POA
“Initial Share Pledge Agreements”	two share pledge agreements dated 21 June 2021 entered into between Able Might (as pledgee) and each of Mr. Edmond Lee and Ms. Roletta Lee (as pledgor) separately in respect of the Shunying Shares held under their names, each an “Initial Share Pledge Agreement”
“Initial Spousal Undertakings”	two spousal undertakings dated 21 June 2021 executed by Mr. Edmond Lee’s wife and Ms. Roletta Lee’s husband separately in favour of the Company, Able Might and Shunying in relation to certain undertakings for the VIE Documents
“Initial VIE Documents”	the Initial Loan Agreement, the Initial Share Pledge Agreements, the Initial POAs, the Shareholders’ Agreement the Initial Spousal Undertakings and the Mortgage Agreement

“Land”	a vacant land parcel with the area of about 126.11 hectares located at Tuek Chhou District, Kampot Province, Cambodia, which is in the process of acquisition by Shunying and conversion from soft title to hard title pursuant to the Cambodian Land SPA
“Land Acquisition Completion”	the completion of the Cambodian Land SPA
“Land Price”	US\$98,748,000, being the consideration for the purchase of the Land by Shunying under the Cambodian Land SPA
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan Assignment”	the assignment of the Loans by Mr. Edmond Lee and Ms. Roletta Lee to Able Might
“Loan Consideration”	the consideration for the assignment of the Loans
“Loans”	the entire amount of shareholders’ loan owed by Shunying to Mr. Edmond Lee and Ms. Roletta Lee as at the date of the Share Acquisition Completion inclusive of accrued but unpaid interest thereupon up to the Share Acquisition Completion
“Local Seller”	a local Cambodian citizen currently holding the Land, who is, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, an Independent Third Party to the Group
“Mortgage Agreement”	the mortgage agreement dated 21 June 2021 entered into between Shunying (as mortgagor) and Able Might (as mortgagee) in respect of their rights and obligations of a mortgage to be created over the Land and the properties as may be affixed to the Land to secure, among others, the shareholders’ loan to be owed to Able Might by Shunying
“Mr. Alex Wong”	Mr. Wong Chi Chung Alex
“Mr. Edmond Lee”	Mr. Lee Man Bun, an executive Director and the Chief Executive Officer of the Company
“Mr. Edmond Lee Loan”	(i) US\$37,598,840.82 (being the advance made by Mr. Edmond Lee so far for settling the refundable deposits under the Cambodian Land SPA and the operating cost of Shunying); and (ii) the accrued but unpaid interest thereupon up to the Share Acquisition Completion

“Ms. Roletta Lee”	Ms. Roletta Lee Man Ching, a sister of Mr. Edmond Lee and Dr. Raymond Lee
“Ms. Roletta Lee Loan”	(i) US\$13,192,694.54 (being the advance made by Ms. Roletta Lee so far for settling the refundable deposits under the Cambodian Land SPA and the operating costs of Shunying); and (ii) the accrued but unpaid interest thereupon up to the Share Acquisition Completion
“New Loan Agreement”	the new loan agreement to be entered into among Able Might (as lender), Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong (as borrowers) in respect of the loan facility of US\$510,000 provided by Able Might to Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong
“New Share Pledge Agreements”	four share pledge agreements to be entered into between Able Might (as pledgee) and each of Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong (as pledgor) separately in respect of the Shunying Shares held under their names
“New VIE Documents”	the New Loan Agreement, the New Share Pledge Agreements, the Initial POAs, the Additional POAs, the Shareholders’ Agreement, the Initial Spousal Undertakings, the Additional Spousal Undertaking and the Mortgage Agreement
“Other Share Transfer”	the transfer of 155,000 Shunying Shares from Mr. Edmond Lee to Dr. Raymond Lee and the transfer of 50,000 Shunying Shares and 50,000 Shunying Shares from Ms. Roletta Lee to Dr. Raymond Lee and Mr. Alex Wong, respectively
“POAs”	the Initial POAs and the Additional POAs, each a “POA”
“Port”	a port to be built by Shunying or its nominee on a site adjacent to the Land with coastal line of 500-metre long and by 30-metre wide and at around 12-metre deep, which forms part of the subject property being purchased under the Cambodian Land SPA
“PRC”	the People’s Republic of China, which excludes Hong Kong, Macau and Taiwan for the purpose of this announcement
“Sale Shares”	the 490,000 Shunying Shares to be sold by Mr. Edmond Lee to Able Might pursuant to the terms of the Share Acquisition Agreement

“Service Agreement”	the service agreement dated 21 June 2021 entered into among, Able Might, Shunying and Heng Yick in respect of the provision of the Services
“Services”	the services to be provided by Heng Yick for facilitating the operation of Shunying’s pulp and paper manufacturing business in Cambodia pursuant to the Service Agreement, the details of which are described in the section headed “Service Agreement” in this announcement
“Share Acquisition”	the acquisition of the Sale Shares by Able Might from Mr. Edmond Lee
“Share Acquisition Agreement”	the conditional sale and purchase agreement dated 21 June 2021 entered into among Able Might, Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee and Mr. Alex Wong in relation to the Share Acquisition and Loan Assignment
“Share Acquisition Completion”	the completion of the Share Acquisition Agreement
“Share Consideration”	the consideration for the sale and purchase of Sale Shares
“Shareholder(s)”	holder(s) of the issued share(s) of the Company
“Shareholders’ Agreement”	the shareholders’ agreement dated 21 June 2021 entered into among Mr. Edmond Lee, Ms. Roletta Lee, Dr. Raymond Lee, Mr. Alex Wong, Able Might and Shunying in respect of the shareholders’ rights and obligations in Shunying
“Share(s)”	ordinary share(s) with par value of HK\$0.025 each in the capital of the Company
“Shunying”	Shunying Pulp and Paper Company Limited, a private limited company incorporated in Cambodia, which is as at the date of this announcement owned as to 85% and 15% by Mr. Edmond Lee and Ms. Roletta Lee respectively
“Shunying Share(s)”	ordinary share(s) in and of Shunying in the par value of US\$1.00 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the transactions contemplated under the Share Acquisition Agreement, the VIE Documents and the Service Agreement

“US\$”	United States dollars, the lawful currency of the United States of America
“VIE Documents”	the Initial VIE Documents and the New VIE Documents
“VIE Structure”	the variable interest entity structure set up pursuant to the VIE Documents for the purpose of enabling Able Might to exercise control over and enjoy the economic benefits flowing from 51% of the total number of issued Shunying Shares, the details of which are described in the section headed “VIE Structure” in this announcement
“%”	per cent.

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

Hong Kong, 21 June 2021

*As at the date of this announcement, the board of directors of the Company 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.*