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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Samson Paper Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

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## SAMSON PAPER HOLDINGS LIMITED

### 森信紙業集團有限公司\*

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 731)

- (1) PROPOSED RESTRUCTURING OF THE GROUP, INVOLVING,  
(A) CAPITAL REORGANISATION;  
(B) SUBSCRIPTION;  
(C) GROUP REORGANISATION;  
(D) PLACEMENT;  
(E) LISTCO SCHEME;  
(F) UPPSD BANKRUPTCY REORGANISATION; AND  
(G) RESUMPTION;  
(2) WHITEWASH WAIVER;  
(3) SPECIAL DEALS;  
(4) AMENDMENTS TO THE BYE-LAWS OF THE COMPANY;  
(5) CHANGE IN BOARD LOT SIZE;  
(6) PROPOSED APPOINTMENT OF DIRECTORS;  
(7) PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS; AND  
(8) NOTICE OF SGM

Financial adviser to the Company

Financial adviser to the Investor

**Deloitte.**

德勤

 金融有限公司  
OCTAL Capital Limited

Deloitte & Touche Corporate Finance Limited

Placing Agent

Independent financial adviser to the Independent Board  
Committee and the Independent Shareholders

 京基證券集團  
KINGKEY SECURITIES GROUP

Kingkey Securities Group Limited

 德健  
融資有限公司  
DAKIN CAPITAL LIMITED

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A letter of advice from Dakin Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 119 to 176 of this circular. A notice convening the SGM to be held at Unit D, 13/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong, at 2:00 p.m. on Monday, 24 January 2022 is set out on pages SGM-1 to SGM-9. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the SGM or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof. In such event, your form of proxy will be deemed revoked.

31 December 2021

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Auditors”	RSM Hong Kong, certified public accountants and the auditors of the Company
“Authorised Share Capital Diminution”	the proposed cancellation of the authorised but unissued ordinary share capital of the Company in its entirety upon the Capital Reduction becoming effective
“Bermuda Companies Act”	The Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time
“Bermuda Court”	the Supreme Court of Bermuda
“BL”	Burotech Limited (In Creditors’ Voluntary Liquidation), an indirect wholly owned subsidiary of the Company
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday of the PRC and Hong Kong or day on which a typhoon signal No. 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in the PRC and Hong Kong are generally open for business
“Bye-Laws”	the bye-laws of the Company from time to time as amended, supplemented or modified for the time being
“Capital Reduction”	the reduction of the issued capital of the Company by cancelling the paid up capital to the extent of HK\$0.095 on each of the issued Existing Shares such that the par value of each issued Existing Share shall be reduced from HK\$0.10 to HK\$0.005
“Capital Reorganisation”	the reorganisation of the capital of the Company by way of (i) Capital Reduction; (ii) Authorised Share Capital Diminution; (iii) Share Premium Cancellation; (iv) Share Consolidation; and (v) Increase in Authorised Share Capital
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CFO”	the chief financial officer of the Group
“Closing”	the completion of all the transactions under the Restructuring Agreement

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## DEFINITIONS

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“Company”	Samson Paper Holdings Limited (Provisional Liquidators Appointed) (for restructuring purposes only), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Concert Party Group”	the Investor, Xiamen C&D Paper, Zhejiang Xinshengda, Shandong Bairun, Mr. Li Shengfeng, Ms. Lu Chengying and parties acting in concert with any of them
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Creditors’ Shares”	240,482,142 New Shares, which represent approximately 17% of the Enlarged Capital, to be allotted and issued by the Company to the SchemeCo under the Listco Scheme
“DaiEi”	DaiEi Papers (H.K.) Limited, a company incorporated in Hong Kong with limited liability, a Shareholder and creditor of the Company, and owned as to 100% by KPP
“De-consolidated Group A”	SMHK and its subsidiaries
“De-consolidated Group B”	SMC and its subsidiaries
“De-consolidated Group C”	SJ Limited and its subsidiaries
“De-consolidated Group D”	Hypex International and its subsidiaries
“Debts of UPPSD’s Related Parties (Confirmed)”	debts due by UPPSD to the Excluded Subsidiaries including 森信紙業(上海)有限公司 (Samson Paper (Shanghai) Co., Ltd.*), 森信紙業(深圳)有限公司 (Samson Paper (Shenzhen) Co., Ltd.*), Samson Paper Company Limited, UPP Investments Limited, 誠仁(中國)有限公司 (SJ (China) Co., Ltd.*), 能京商貿(上海)有限公司 (NJ Trading (Shanghai) Co., Ltd.*) and 深圳市嘉凌貿易有限公司 (Shenzhen Jialing Trading Co, Ltd.*), as recognized by the UPPSD Bankruptcy Administrator and the PRC Court
“Directors”	directors of the Company
“End-users”	small to mid-sized printing and packaging manufacturers which use UPPSD’s products to produce packaging for food and beverage producers, electronic product manufacturers and textile manufacturers

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## DEFINITIONS

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“Enlarged Capital”	the issued ordinary shares in the capital of the Company after the completion of the Capital Reorganisation as enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors’ Shares and assuming that all the Preference Shares have been fully converted
“Entrusted Assets”	land and buildings, property, plant and equipment of UPPSD under the Entrusted Operation
“Entrusted Operation”	entrusted operation in respect of the manufacturing facility of UPPSD contemplated under the Entrusted Operation Agreement
“Entrusted Operation Agreement”	an agreement entered into by UPPSD, Xiamen C&D Paper and Shandong Herun dated 24 October 2020 in relation to, amongst others, the Entrusted Operation
“Entrusted Operation Period”	the period from 24 October 2020, being the date of the Entrusted Operation Agreement, to 31 July 2021, being the date before the termination of the Entrusted Operation Agreement
“Excluded Subsidiaries”	the subsidiaries of the Group to be transferred to the SchemeCo for the benefit of the Scheme Creditors
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or its delegate
“Existing Share(s)”	ordinary share(s) in the issued capital of the Company before the Capital Reorganisation becoming effective
“Facility Agreement”	the facility agreement entered into by and among Shandong Bairun, SPV2, UPPSD, the Company and the JPLs on 1 September 2021 for the provision of a loan by Shandong Bairun of not less than RMB250 million required for the implementation of the UPPSD Bankruptcy Reorganisation plan and daily business operation of UPPSD
“First Instalment Payment”	the first instalment payment to (i) repay UPPSD’s creditors’ claim of principal amount (as admitted by UPPSD Bankruptcy Administrator) below RMB200,000 (including RMB200,000) and 20% of the principal amount (as admitted by UPPSD Bankruptcy Administrator) in excess of RMB200,000; and (ii) settlement of Debts of UPPSD’s Related Parties (Confirmed) under the UPPSD Bankruptcy Reorganisation plan
“FMCG”	fast moving consumer goods

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## DEFINITIONS

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“Grant Thornton”	Grant Thornton Advisory Services Limited, an independent investigator appointed by the then independent board committee to conduct an independent investigation in respect of the audit issues raised by the former auditors of the Company
“Group”	the Company and its subsidiaries as at the Latest Practicable Date
“Group Reorganisation”	the reorganisation of the Group involving, (i) the transfer of the Excluded Subsidiaries to the SchemeCo; and (ii) UPPSD becoming a wholly-owned subsidiary of SPV2 through the UPPSD Bankruptcy Reorganisation
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the High Court of Hong Kong
“Hypex Group”	Hypex International and its subsidiaries
“Hypex International”	Hypex International Pte Ltd, a company incorporated in Singapore with limited liability, and an indirect wholly-owned subsidiary of the Company
“Increase in Authorised Share Capital”	the proposed increase of authorised ordinary share capital of the Company from HK\$5,710,000 to HK\$100,000,000 upon the Capital Reduction, the Share Premium Cancellation, the Authorised Share Capital Diminution and the Share Consolidation becoming effective
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Director, namely Mr. Leung Vincent Gar-gene, who has no direct or indirect interest in the Restructuring, established in accordance with the Takeovers Code to advise the Independent Shareholders on (i) whether the Restructuring Agreement and transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions are fair and reasonable; and (ii) as to the voting of the relevant resolutions

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## DEFINITIONS

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“Independent Financial Adviser”	Dakin Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and is the independent financial adviser appointed by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions at the SGM
“Independent Products Pricing Terms”	the terms agreed with independent customers for Paperboard Products of comparable quality, specifications, quantities and related delivery costs in recent transactions
“Independent Shareholder(s)”	Shareholder(s), other than: (i) the Concert Party Group; (ii) those Shareholders (other than in their capacity as a Shareholder) who are interested or involved in, the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions; and (iii) DaiEi in respect of all the resolutions to be considered and voted at the SGM (except for the Paperboard Sales Continuing Connected Transactions), and their associates and parties acting in concert with any of them, who are permitted to vote at the SGM under the Listing Rules and the Takeovers Code
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected person(s)
“Investor”	NCD Investment Holding Limited, a company incorporated in British Virgin Islands with limited liability, indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively. The directors of the Investor are Mr. Cheng Dongfang, Mr. Shi Yaofeng and Mr. Li Shengfeng

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## DEFINITIONS

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“Irrevocable Deed of Voting Undertakings”	collectively, the irrevocable undertakings given by certain Shareholders to exercise all voting rights attaching to Shares beneficially owned by such Shareholders to vote in favour of the resolutions to be considered at the SGM, as long as the voting rights under the relevant Shares are permitted to be so exercised and not required to be abstained
“Issue Price of the Creditors’ Shares”	HK\$0.121056 per Creditors’ Share
“JPLs”	Lai Kar Yan (Derek) and Ho Kwok Leung (Glen), both of Deloitte Touche Tohmatsu, and Rachelle Ann Frisby of Deloitte Ltd., in their capacity as joint provisional liquidators of the Company appointed by the Bermuda Court
“Keishin”	Keishin Papers Trade (Shanghai) Company Limited, a company incorporated in PRC and a subsidiary of KPP, being a major supplier of the Group
“KGL”	Kingsrich Group Limited (In Creditors’ Voluntary Liquidation), an indirectly wholly owned subsidiary of the Company
“KPP”	Kokusai Pulp & Paper Co. Ltd., a company incorporated in Japan and listed in the Tokyo Stock Exchange
“Last Trading Day”	1 July 2020, being the last trading day immediately before the suspension of trading in the Shares
“Latest Practicable Date”	28 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listco Scheme”	the scheme of arrangement between the Company and the Scheme Creditors as sanctioned by the Hong Kong Court on 28 October 2021
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 January 2022, or such other date as the parties to the Restructuring Agreement may otherwise agree in writing
“New Share(s)”	ordinary share(s) of the Company of HK\$0.05 each in the capital of the Company immediately upon the Capital Reorganisation becoming effective
“Pan China”	Pan-China Enterprise Risk Management Consulting Limited, being the internal control consultant of the Company

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## DEFINITIONS

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“Paperboard Products”	coated duplex board and kraft linerboard produced by UPPSD to be sold to Xiamen C&D Paper Group under the Paperboard Sales Framework Agreement
“Paperboard Sales”	the sales of Paperboard Products to Xiamen C&D Paper Group
“Paperboard Sales Continuing Connected Transactions”	the transactions contemplated under the Paperboard Sales Framework Agreement
“Paperboard Sales Framework Agreement”	the framework agreement entered between UPPSD and Xiamen C&D Paper on 28 December 2021 in respect of the Paperboard Sales
“Payment Conditions”	the conditions for provision of a loan of not less than RMB250 million by Shandong Bairun to SPV2 under the Facility Agreement to settle the First Instalment Repayment and for the daily business operations of UPPSD
“Payment to DaiEi under the Listco Scheme”	the proposed settlement of the indebtedness due to DaiEi under the Listco Scheme
“Payment to DaiEi under the UPPSD Bankruptcy Reorganisation”	the proposed settlement of the indebtedness due to DaiEi under the UPPSD Bankruptcy Reorganisation
“Petition”	the petition for the winding up of the Company filed by the Company with the Bermuda Court on 18 July 2020
“PID”	property investment and development
“Placee(s)”	any professional, institutional or other investors who themselves and their ultimate beneficial owner(s) will not be a Shareholder prior to the subscription of the Creditors’ Shares or the Placement Shares (as the case may be) or member of the Concert Party Group and otherwise will be an Independent Third Party, procured by or on behalf of the Placing Agent for Placing Out and the Placing Agent for Placement and/or any of its agent(s) to subscribe for any of the Creditors’ Shares or the Placement Shares (as the case may be)
“Placement”	the proposed placing of 56,584,032 New Shares by the Placing Agent for Placement on a fully underwritten basis pursuant to the terms of the Placing Agreement for Placement

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## DEFINITIONS

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“Placement Completion Date”	the date of completion of the Placement
“Placement Share Price”	HK\$0.121056 per Placement Share
“Placement Shares”	56,584,032 New Shares to be allotted and issued under the Placement to the Placees and/or the Placing Agent for Placement (as the underwriter)
“Placing Agent for Placement” or “Kingkey”	Kingkey Securities Group Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities engaged by the Company and the Investor, which will place the Placement Shares to the Placees on a fully underwritten basis
“Placing Agent for Placing Out” or “Kingkey”	Kingkey Securities Group Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities to be engaged by the SchemeCo and the Investor at Closing, which will sell or otherwise dispose such number of Creditors’ Shares to Placees
“Placing Agreement for Placement”	the placing agreement entered into between the Company, the Investor and the Placing Agent for Placement on 28 December 2021 in respect of the Placement
“Placing Agreement for Placing Out”	the placing agreement to be entered into by and between the Investor, the Scheme Administrators, the SchemeCo and the Placing Agent for Placing Out at Closing in relation to the Placing Out and the Price Protection
“Placing Commitment”	undertakings made by the Placing Agent for Placement to place, or procure the placing of, on a fully underwritten basis, 56,584,032 Placement Shares at the Placement Share Price under the Placing Agreement for Placement
“Placing Out”	placing of the Creditors’ Shares by the Placing Agent for Placing Out as instructed by the SchemeCo for the purpose of realisation of the Creditors’ Shares for proceeds and payment to the relevant Scheme Creditors in full satisfaction of their rights to such Creditors’ Shares

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## DEFINITIONS

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“Placing Out Period”	the 12-months period after the Closing, during which the SchemeCo (for the benefit of the Scheme Creditors) may instruct the Placing Agent for Placing Out to place any part of the Creditors’ Shares and, given the Price Protection will be in place, to receive a price no less than the Issue Price of the Creditors’ Shares per Creditors’ Share pursuant to the Placing Agreement for Placing Out
“Placing Price for Placing Out”	placing price(s) per Creditors’ Share procured by the Placing Agent for Placing Out, on a best effort basis, pursuant to the Placing Agreement for Placing Out, which is not a fixed price and may vary for each batch of Creditors’ Shares
“PRC”	the People’s Republic of China, excluding the Hong Kong Special Administrative Region, and the Macau Special Administrative Region and Taiwan
“PRC Court”	the People’s Court of Xuecheng District, Zaozhuang City, Shandong Province, the PRC
“Preference Share(s)”	the convertible non-voting preference share(s) in the capital of the Company as at the Latest Practicable Date
“Prevailing Market Terms”	the prevailing market price of the Paperboard Products in the PRC of comparable quality, specifications, quantities and related delivery costs
“Price Protection”	the Investor’s guarantee to pay any shortfall of the Placing Price for Placing Out and the Issue Price of the Creditors’ Shares should the Placing Price for Placing Out be lower than the Issue Price of the Creditors’ Shares, such that the SchemeCo would still receive the Issue Price of the Creditors’ Shares per Creditors’ Share on behalf of the relevant Scheme Creditors with regards to the Placing Out
“Proposed Caps”	the respective estimated annual monetary value of the Paperboard Sales Continuing Connected Transactions for the three financial years ending 31 March 2024
“Reference Site”	the public website of <a href="http://www.umpaper.com">http://www.umpaper.com</a> , which is referenced by UPPSD in respect of prevailing market price of recovered paper and recycled pulp
“Relevant Period”	the period from 13 October 2020, being the date six months before 13 April 2021, being the date the Term Sheet was entered into, up to and including the Latest Practicable Date

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## DEFINITIONS

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“Restructuring”	restructuring of the Group which shall include, the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption
“Restructuring Agreement”	the restructuring agreement dated 30 July 2021 (as amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) entered into among the Company, the JPLs, the Investor, Xiamen C&D Paper, Zhejiang Xinshengda and Shandong Bairun in relation to the Restructuring
“Restructuring Expenses”	approximately HK\$35,000,000, which represents the costs, expenses, fees and charges incurred or to be incurred for the proposed Restructuring
“Resumption”	resumption of trading in the New Shares on the Stock Exchange
“Resumption Proposal”	the proposal prepared and submitted to the Stock Exchange in relation to the Resumption on 20 September 2021, as supplemented from time to time
“Retained Group”	the Company and its subsidiaries upon the Closing, which shall comprise of the Company, SPV1, SPV2 and UPPSD
“RMB”	Renminbi, the lawful currency of the PRC
“Rule 3.28 Waiver”	the waiver from strict compliance with the requirements under Rule 3.28 of the Listing Rules
“Rule 3.28 Waiver Period”	a period of three years commencing on the date of the Resumption
“Rule 3.5 Announcement”	the announcement of the Company dated 22 November 2021 in relation to, among other things, (i) the Restructuring Agreement in relation to the Restructuring of the Group; (ii) application for the Whitewash Waiver; (iii) Special Deals; (iv) amendments to the Bye-Laws of the Company; (v) change in board lot size; and (vi) continued suspension of trading of the Shares
“Scheme Administrators”	the persons to be elected and appointed in accordance with the terms of the Listco Scheme, who are expected to be Mr. Lai Kar Yan (Derek), Mr. Ho Kwok Leung Glen and Mr. Kam Chung Hang (Forrest) of Deloitte Touche Tohmatsu
“Scheme Creditors”	the creditors of the Company with unsecured claims to be admitted in the Listco Scheme by the Scheme Administrators in accordance with the terms of the Listco Scheme

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## DEFINITIONS

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“SchemeCo”	a special purpose vehicle to be established or incorporated in Hong Kong by the Scheme Administrators under the Listco Scheme in the first week of January 2022
“Seng Jin Liquidators”	joint and several liquidators of SJ Limited
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held to consider, and, if thought fit, approve, among others, the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals, the Paperboard Sales Continuing Connected Transactions, the proposed appointment of Directors and the proposed amendments to the Bye-Laws of the Company
“Shandong Bairun”	山東佰潤紙業有限公司 (Shandong Bairun Paper Co. Ltd.*), a company incorporated in the PRC with limited liability. Shandong Bairun is owned by Xiamen C&D Paper and Shandong Herun as to 55% and 45%. The directors of Shandong Bairun are Mr. Cheng Dongfang, Mr. Shi Yaofeng, Mr. Li Shengfeng, Ms. Shi Chenye, Mr. Zhou Wei, Mr. Huang Tiansheng and Mr. Chen Hongbo
“Shandong Herun”	山東和潤控股集團有限公司 (Shandong Herun Holding Group Co., Ltd.*), a company incorporated in the PRC with limited liability. Shandong Herun is wholly owned by Mr. Li Shengfeng, the majority ultimate beneficial owner of Zhejiang Xinshengda. The sole director of Shandong Herun is Mr. Li Shengfeng
“Share Consolidation”	the proposed consolidation of every ten (10) issued and unissued Existing Shares of HK\$0.005 each into one (1) New Share of HK\$0.05 each
“Share Premium Cancellation”	the cancellation of the entire amount standing to the credit of the share premium account of the Company
“Share(s)”	ordinary share(s) in the capital of the Company as at the Latest Practicable Date
“Shareholder(s)”	holder(s) of the Shares and the Preference Shares of the Company

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## DEFINITIONS

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“SHPCL”	Shun Hing Paper Company Limited (In Creditors’ Voluntary Liquidation), an indirect wholly owned subsidiary of the Company
“SJ (China)”	SJ (China) Company Limited, a company incorporated in PRC with limited liability and formerly an indirect wholly-owned subsidiary of the Company
“SJ Limited”	Seng Jin Group Limited (In Liquidation), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“SMC”	Samson Paper (China) Company Limited (In Creditors’ Voluntary Liquidation), an indirect wholly-owned subsidiary of the Company
“SMC Liquidators”	joint and several liquidators of SMC
“SMHK”	Samson Paper Company Limited (In Creditors’ Voluntary Liquidation), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“SMHK Liquidators”	joint and several liquidators of SMHK
“Special Deal I”	the proposed Payment to DaiEi under the Listco Scheme, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Special Deal II”	the proposed Payment to DaiEi under the UPPSD Bankruptcy Reorganisation, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Special Deal III”	the Price Protection to be offered to DaiEi via the SchemeCo pursuant to the Placing Agreement for Placing Out, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Special Deals”	together, Special Deal I, Special Deal II and Special Deal III, and where the context requires, can mean either one of them
“Specific Mandates”	the specific mandates to be granted to the Directors by the requisite majority of the Independent Shareholders at the SGM for the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors’ Shares

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## DEFINITIONS

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“Specific Records”	specific business records and supporting explanations for the business transactions and accounting entries in relation to the De-consolidated Group A and the De-consolidated Group B, that are of a sufficient level for the Auditors’ audit purposes
“SPV1”	Greater Paper Development Limited (偉紙發展有限公司), a company incorporated in Hong Kong with limited liability, owned as to 100% by the Company as at the Latest Practicable Date
“SPV2”	偉紙(深圳)紙業發展有限公司 (Greater Paper (Shenzhen) Paper Limited*), a company incorporated in the PRC with limited liability and owned as to 100% by SPV1 as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-agents”	other agents to be procured by the Placing Agent for Placement to place the Placement Shares, who themselves and their ultimate beneficial owner(s) will not be a Shareholder prior to the subscription of the Placement Shares or member of the Concert Party Group and otherwise will be an Independent Third Party
“Subscription”	the subscription by the Investor of 990,220,583 Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	a subscription agreement entered into on 26 October 2021 by and among the Company, the JPLs and the Investor in relation to the Subscription
“Subscription Price”	HK\$0.121056 per Subscription Share
“Subscription Proceeds”	proceeds from the Subscription
“Subscription Shares”	the 990,220,583 New Shares to be subscribed by the Investor under the Subscription
“Supplemental Agreement to the Entrusted Operation Agreement”	a supplemental agreement entered into by and among UPPSD, UPPSD Bankruptcy Administrator and Shandong Bairun and dated 19 January 2021 in relation to amendments to certain terms of the Entrusted Operation Agreement
“Supplemental Agreement to the Restructuring Agreement”	a supplemental agreement entered into by and among the Company, the JPLs, the Investor, Xiamen C&D Paper, Zhejiang Xinshengda and Shandong Bairun and dated 22 November 2021 in relation to certain amendments to the Restructuring Agreement

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## DEFINITIONS

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“Takeovers Code”	the Code on Takeovers and Mergers
“Term Sheet”	a term sheet dated 13 April 2021 entered into by and among the Company, the JPLs, Xiamen C&D Paper and Zhejiang Xinshengda in relation to the Restructuring
“UPPI”	UPP Investments Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly owned subsidiary of the Company
“UPPSD”	遠通紙業(山東)有限公司 (Universal Pulp & Paper (Shandong) Co. Ltd.*), a company incorporated in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company, owned as to 80% by the Company and 20% by KPP prior to the implementation of UPPSD Bankruptcy Reorganisation and an indirect wholly owned subsidiary of the Company as at the Latest Practicable Date
“UPPSD Bankruptcy Administrator”	Shandong Deheng Law Firm, the bankruptcy administrator of UPPSD appointed by the PRC Court
“UPPSD Bankruptcy Reorganisation”	reorganisation of the capital and indebtedness of UPPSD in accordance with the PRC Enterprise Bankruptcy Law
“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations on the part of the Investor to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Concert Party Group as a result of the Closing (which involves the Subscription)
“Wholesale Customers”	distributors of paper products which, based on information to UPPSD, would sell UPPSD’s products to customers of their own
“Xiamen C&D Corporation”	廈門建發集團有限公司 (Xiamen C&D Corporation Limited*), a company incorporated in the PRC with limited liability and wholly owned by Xiamen SASAC. The directors of Xiamen C&D Corporation are Mr. Huang Wenzhou, Mr. Wang Qin, Mr. Pan Ziwan, Mr. Zhao Chengmin, Mr. Lin Yiqiang, Mr. Chen Dongxu, Mr. Zhao Shenghua and Mr. Shi Zhen

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## DEFINITIONS

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“Xiamen C&D Inc.”	廈門建發股份有限公司 (Xiamen C&D Inc.*), a joint stock limited company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600153). The largest shareholder of Xiamen C&D Inc is Xiamen C&D Corporation, who holds approximately 47.4% of interests in Xiamen C&D Inc. as at the Latest Practicable Date. The directors of Xiamen C&D Inc. are Mr. Zheng Yongda, Mr. Huang Wenzhou, Mr. Lin Mao, Mr. Chen Dongxu, Mr. Wang Qin, Ms. Ye Yanliu, Mr. Lin Tao, Mr. Chen Shoude and Mr. Dai Yiyi
“Xiamen C&D Paper”	廈門建發紙業有限公司 (Xiamen C&D Paper & Pulp Co., Ltd.*), a company incorporated in the PRC with limited liability and indirectly wholly owned by Xiamen C&D Inc.. The directors of Xiamen C&D Paper are Mr. Lin Mao, Mr. Cheng Dongfang, Ms. Jiang Guizhi, Mr. Zheng Yongda and Mr. Huang Wenzhou
“Xiamen C&D Paper Group”	Xiamen C&D Paper and/or its subsidiaries
“Xiamen SASAC”	廈門市人民政府國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of Xiamen People’s Government*), the 100% equity holder of Xiamen C&D Corporation
“Zhejiang Xinshengda”	浙江新勝大控股集團有限公司 (Zhejiang Xinshengda Holding Group Co., Ltd.*), a company incorporated in the PRC with limited liability and the majority ultimate beneficial owner is Mr. Li Shengfeng
“%”	per cent.

*Unless the content states otherwise, conversion of RMB into HK\$ and that of US\$ into RMB are made for illustrative purpose only, at the rates of RMB1.00 = HK\$1.2077 and US\$1.00 = RMB6.3770, respectively, in this circular.*

*Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

\* For identification purpose only

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## EXPECTED TIMETABLE

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The following events are conditional on the results of the SGM. The dates are therefore tentative.

Latest time for lodging transfers of the Shares in order to be qualified for attending and voting at the SGM . . . . .	4:30 p.m. on Monday, 17 January 2022
Register of members closes (both days inclusive) . . . . .	Tuesday, 18 January– Monday, 24 January 2022
Latest time for return of proxy form for the SGM by way of poll . . . . .	2:00 p.m. on Saturday, 22 January 2022
Record date for attendance and voting at the SGM by way of poll . . . . .	Monday, 24 January 2022
SGM by way of poll . . . . .	2:00 p.m. on Monday, 24 January 2022
Announcement of the result of the SGM . . . . .	before 7:00 p.m. on Monday, 24 January 2022
Expected effective date of the Capital Reorganisation <sup>Note1</sup> . . . . .	Wednesday, 26 January 2022
First day of free exchange of existing share certificates for new share certificates for the New Shares . . . . .	Wednesday, 26 January 2022
Taking effect of the Listco Scheme and issuance of Creditors' Shares and despatch of certificates for the Creditors' Shares to be held by SchemeCo on behalf of the Scheme Creditors . . . . .	Wednesday, 26 January 2022
Completion of the Subscription and issuance of Subscription Shares and despatch of certificates for the Subscription Shares to the Investor . . . . .	Wednesday, 26 January 2022
Completion of the Placement and issuance of the Placement Shares and despatch of certificates for the Placement Shares to the Placees and/or the Placing Agent for Placement (as the underwriter). . . . .	Wednesday, 26 January 2022
Completion of all the Resumption conditions and publication of an announcement relating to the Resumption . . . . .	Wednesday, 26 January 2022

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## EXPECTED TIMETABLE

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Withdrawal of the Petition and the discharge of the JPLs . . . . .	Wednesday, 26 January 2022
Resumption and dealings in the New Shares (including the Subscription Shares, Creditors' Shares and Placement Shares) commences. . . . .	9:00 a.m. on Wednesday, 26 January 2022
Commencement in dealings in the New Shares. . . . .	9:00 a.m. on Wednesday, 26 January 2022
Original counter for trading in the Existing Shares in board lots of 2,000 Shares (in the form of existing share certificates) temporarily closes . . . . .	9:00 a.m. on Wednesday, 26 January 2022
Temporary counter for trading in the New Shares in board lots of 200 New Shares (in the form of existing share certificates) opens . . . . .	9:00 a.m. on Wednesday, 26 January 2022
Original counter for trading in the New Shares in board lots of 20,000 New Shares (in the form of new share certificates for the New Shares) re-opens . . . . .	9:00 a.m. on Monday, 14 February 2022
Parallel trading in the New Shares (in the form of both existing share certificates and new share certificates) commences . . . . .	9:00 a.m. on Monday, 14 February 2022
Designated broker starts to stand in the market to provide matching services for the sale and purchase of the odd lots of the New Shares . . . . .	9:00 a.m. on Monday, 14 February 2022
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of the odd lots of the New Shares. . . . .	4:00 p.m. on Friday, 4 March 2022
Temporary counter for trading in the New Shares in board lots of 200 New Shares (in the form of existing share certificates) closes . . . . .	4:10 p.m. on Friday, 4 March 2022

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## EXPECTED TIMETABLE

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Parallel trading in the New Shares (in the form of both existing share certificates and new share certificates) ends . . . . . 4:10 p.m. on Friday, 4 March 2022

Last day for free exchange of existing share certificates for new share certificates for the New Shares . . . . . Tuesday, 8 March 2022

*Notes:*

- (1) Assume passing of the resolutions by the Independent Shareholders to approve the Capital Reorganisation at the SGM, and subject to fulfilment of other conditions including (i) the Stock Exchange granting the listing of, and permission to deal in, the New Shares allotted and issued following the Capital Reorganisation, the Subscription, the Placement and the issuance of the Creditors' Shares; and (ii) compliance with the relevant procedures and requirements under Bermuda laws to effect the Capital Reorganisation; and
- (2) All references to time in the above timetable are references to Hong Kong time.

Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Capital Reorganisation and the Placement are indicative only and may be extended or varied by agreement between the relevant parties, and are subject to the approval by the Stock Exchange of such amendments. Any consequential changes to the expected timetable will be published or notified to the Shareholders appropriately by way of announcements on the Company's website and/or the Stock Exchange's website.



**SAMSON PAPER HOLDINGS LIMITED**

**森信紙業集團有限公司\***

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

(Incorporated in Bermuda with limited liability)

**(Stock Code: 731)**

- (1) PROPOSED RESTRUCTURING OF THE GROUP, INVOLVING,**  
**(A) CAPITAL REORGANISATION;**  
**(B) SUBSCRIPTION;**  
**(C) GROUP REORGANISATION;**  
**(D) PLACEMENT;**  
**(E) LISTCO SCHEME;**  
**(F) UPPSD BANKRUPTCY REORGANISATION; AND**  
**(G) RESUMPTION;**  
**(2) WHITEWASH WAIVER;**  
**(3) SPECIAL DEALS;**  
**(4) AMENDMENTS TO THE BYE-LAWS OF THE COMPANY;**  
**(5) CHANGE IN BOARD LOT SIZE;**  
**(6) PROPOSED APPOINTMENT OF DIRECTORS;**  
**(7) PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS; AND**  
**(8) NOTICE OF SGM**

*Provisional Liquidators:*

Mr. Lai Kar Yan (Derek)  
Mr. Ho Kwok Leung Glen  
Ms. Rachelle Ann Frisby

*Registered Office:*

5th Floor, Victoria Place  
31 Victoria Street  
Hamilton HM10  
Bermuda

*Executive Directors:*

Mr. Choi Wai Hong, Clifford  
Mr. Lau Wai Leung, Alfred

*Head Office and Principal Place of  
Business in Hong Kong:*

Unit D, 13/F  
World Tech Centre  
95 How Ming Street, Kwun Tong,  
Kowloon  
Hong Kong

*Independent Non-executive Director:*

Mr. Leung Vincent Gar-gene

31 December 2021

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## LETTER FROM THE BOARD

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*To the Shareholders*

Dear Sir or Madam,

- (1) PROPOSED RESTRUCTURING OF THE GROUP, INVOLVING,**  
**(A) CAPITAL REORGANISATION;**  
**(B) SUBSCRIPTION;**  
**(C) GROUP REORGANISATION;**  
**(D) PLACEMENT;**  
**(E) LISTCO SCHEME;**  
**(F) UPPSD BANKRUPTCY REORGANISATION; AND**  
**(G) RESUMPTION;**  
**(2) WHITEWASH WAIVER;**  
**(3) SPECIAL DEALS;**  
**(4) AMENDMENTS TO THE BYE-LAWS OF THE COMPANY;**  
**(5) CHANGE IN BOARD LOT SIZE;**  
**(6) PROPOSED APPOINTMENT OF DIRECTORS; AND**  
**(7) PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS**

### INTRODUCTION

Reference is made to the announcements made by the Company dated 20 July 2020, 22 July 2020, 23 July 2020, 26 July 2020, 29 July 2020, 14 August 2020, 30 September 2020, 4 January 2021, 9 February 2021, 13 April 2021, 27 April 2021, 30 April 2021, 2 May 2021, 25 May 2021, 18 June 2021, 7 July 2021, 30 July 2021, 20 August 2021, 23 September 2021, 5 October 2021, 13 October 2021, 28 October 2021 and the Rule 3.5 Announcement in relation to, among other things, the Petition and the proposed Restructuring.

### GENERAL

The purpose of this circular is, among other things, to provide you with further details of (a) the Restructuring Agreement in relation to the Restructuring and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption); (b) the application for the Whitewash Waiver; (c) the Special Deals; (d) amendments to the Bye-Laws of the Company; (e) proposed appointment of Directors; (f) change in board lot size; (g) the Paperboard Sales Continuing Connected Transactions; (h) continued suspension of trading; (i) the recommendations of the Independent Board Committee; (j) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (k) a notice of the SGM.

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## LETTER FROM THE BOARD

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### BACKGROUND OF THE RESTRUCTURING

The background information of the circumstances leading to the entering into of the Restructuring Agreement are detailed below:

#### **Circumstances leading to the appointment of the JPLs**

On 2 July 2020, trading of the Existing Shares on the Stock Exchange was halted pending the release by the Company of an announcement in relation to its audited annual results for the year ended 31 March 2020. As a result of the suspension of trading of the Existing Shares, the repayment obligations of certain indebtedness of the Group had been accelerated by certain creditors and the Group was unable to meet the repayment obligations. As at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million, comprising of claims arising from guarantees granted by the Company to bank creditors and a supplier in relation to the indebtedness of the subsidiaries of the Company, and amounts due to Group companies.

To facilitate a restructuring of the Company's indebtedness, the Company filed the Petition, together with an application for the appointment of joint and several provisional liquidators to the Company on a "light touch" basis for restructuring purposes. On 24 July 2020, Bermuda Court ordered that the JPLs be appointed to the Company, for the purpose of, *inter alia*, formulating, proposing and implementing a restructuring plan of the indebtedness of the Company.

#### **Circumstances leading to the entering into of the Entrusted Operation Agreement**

Since the suspension of trading of the Existing Shares on 2 July 2020, repayment obligation of certain indebtedness of the Group had been accelerated by certain creditors and the Group was unable to meet repayment obligations and, as a result, the Group, including UPPSD, a subsidiary of the Company in the PRC engaging in the paper manufacturing business, faced increasing liquidity pressures.

Due to shortage of cash flow, UPPSD defaulted repayment on various debts, following which creditors of UPPSD had taken various legal actions including applying to the PRC Court to freeze bank accounts of UPPSD. As a result, production of the manufacturing facility of UPPSD was suspended in the third quarter of 2020, and various banks had withdrawn facilities made available to UPPSD.

In view of the limited financial resources made available to the Group, and after considering the respective financial position and working capital requirement of various segments of the Group and feedback from parties potentially interested in the restructuring of the Group, the Board and the JPLs considered it appropriate to focus on the paper manufacturing business of the Group which is carried out by UPPSD and to wind down or dispose of the remaining businesses of the Group. The Group and the JPLs then identified interim financing to support the operations of UPPSD and discussed with various potentially interested parties (including Xiamen C&D Paper and Zhejiang Xinshengda) to restructure the indebtedness of the Group, including UPPSD.

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## LETTER FROM THE BOARD

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### Major terms of the Entrusted Operation Agreement

In order to help UPPSD revive its operation, provide and ring-fence its working capital for its ongoing manufacturing activities as well as to preserve the operational value of UPPSD, and to assist UPPSD in keeping the jobs of over 900 employees, Xiamen C&D Paper and Shandong Herun (a company wholly owned by Mr. Li Shengfeng, the majority ultimate beneficial owner of Zhejiang Xinshengda), with the support from the local government, agreed to jointly operate the assets of UPPSD on an entrusted basis while they were still in an early stage of considering whether to participate in the restructuring of the Group, including UPPSD.

On 24 October 2020, UPPSD, Xiamen C&D Paper and Shandong Herun entered into the Entrusted Operation Agreement, under which, Xiamen C&D Paper and Shandong Herun formed their joint venture company, namely Shandong Bairun, a special purpose vehicle, in November 2020 to carry out manufacturing operation for UPPSD. The principal terms of the Entrusted Operation Agreement are as follows:

- Subject Matter** : (a) The Entrusted Assets would be entrusted to Shandong Bairun for it to operate; and
- (b) Ownership of the Entrusted Assets shall remain with UPPSD.
- Term** : One year from the date of signing of the Entrusted Operation Agreement, which was further extended to 15 March 2022 by the Supplemental Agreement to the Entrusted Operation Agreement.
- Rights and Obligation of Shandong Bairun** : Major responsibilities of Shandong Bairun include:
- (a) paying the staff costs on behalf of UPPSD, while staff of UPPSD would be engaged in the operation of Shandong Bairun and the employment contracts of staff of UPPSD would remain with UPPSD;
- (b) bearing the production cost (including but not limited to repair and maintenance expenses in connection with the Entrusted Assets) to be incurred in connection with the production and operation during the Entrusted Operation;
- (c) sale of goods manufactured by UPPSD;
- (d) bearing liabilities arising from environmental incidents or other events occurred as a result of the production and operation of UPPSD by Shandong Bairun;

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## LETTER FROM THE BOARD

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- (e) providing technical upgrade to the production lines and equipment of UPPSD subject to prior approval of the upgrade plan by UPPSD; and
- (f) paying taxes in connection with the Entrusted Assets (e.g. land use tax, property tax and resource tax (water)) on behalf of UPPSD.

During the Entrusted Operation, Shandong Bairun was entitled to retain the profits and was responsible to bear the losses generated by operating the Entrusted Assets. However, it would not be responsible for liabilities incurred by UPPSD prior to the commencement of the Entrusted Operation.

**Rights and obligation of UPPSD**

: Major responsibilities of UPPSD include:

- (a) handing over the major assets of UPPSD to Shandong Bairun for the Entrusted Operation;
- (b) providing necessary assistance to Shandong Bairun and management of Shandong Bairun on site;
- (c) bearing the liabilities incurred prior to the commencement of the Entrusted Operation; and
- (d) granting right of first refusal to Xiamen C&D Paper and Shandong Herun for the acquisition of equity interests or major assets of UPPSD at the same price and on the same terms as offered by any third party.

During the Entrusted Operation, UPPSD may retain its assets and employees and was benefiting from the upgraded production facilities and business resources introduced by Xiamen C&D Paper and Zhejiang Xinshengda, such as their supply and sales network.

**Financing**

: Xiamen C&D Paper and Shandong Herun would provide working capital of not less than RMB78.5 million to Shandong Bairun. The exact amount of funds to be provided would be agreed mutually by UPPSD, Xiamen C&D Paper and Shandong Herun. The working capital was to be provided to Shandong Bairun and segregated from funds and liabilities of UPPSD.

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## LETTER FROM THE BOARD

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- Termination Events** : The Entrusted Operation Agreement could be terminated upon occurrence of any one of the following events:
- (a) major assets of UPPSD becoming subject to bankruptcy proceedings or enforcement action such that it becomes impractical for Xiamen C&D Paper, Shandong Herun and Shandong Bairun to continue production in accordance with the terms of the Entrusted Operation Agreement;
  - (b) completion of sale of major assets of UPPSD or interests in UPPSD to third parties other than Xiamen C&D Paper and Shandong Herun;
  - (c) Xiamen C&D Paper and Shandong Herun's failure of confirming in writing to accept any offer to acquire major assets of/interests in UPPSD by 30 April 2021 when UPPSD or its shareholder invites Xiamen C&D Paper and Shandong Herun to accept such offer;
  - (d) breach of obligations by either of Xiamen C&D Paper, Shandong Herun or Shandong Bairun under the Entrusted Operation Agreement, and failure to remedy such breach within 30 days after UPPSD's written notification of such breach; and
  - (e) breach of any laws and regulations by Xiamen C&D Paper, Shandong Herun or Shandong Bairun in connection with the carrying out of production activities with the Entrusted Assets.

The Entrusted Operation under the Entrusted Operation Agreement could ring-fence the working capital of UPPSD through the following arrangements:

- (a) Shandong Bairun would fund the operation of the Entrusted Assets (i.e. land and buildings, and machineries and equipment of UPPSD) on the basis that Shandong Bairun was responsible for the staff costs, taxes and all other operating costs (e.g. raw materials, electricity and maintenance) incurred by UPPSD, while Shandong Bairun retained the income generated from sales of goods manufactured by UPPSD. In the event that the income generated by UPPSD was less than its operation costs, any loss would be borne by Shandong Bairun, without further worsening the financial position (including the working capital position) of UPPSD; and

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## LETTER FROM THE BOARD

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- (b) as the funding for the operation of the Entrusted Assets were possessed and controlled by Shandong Bairun independent of UPPSD, the Investor believes that the creditors of UPPSD would not be able to make claims against Shandong Bairun or reach out to the assets of Shandong Bairun. As a result, the funds designated for the operation of the Entrusted Assets provided by Shandong Bairun were ring-fenced from the liabilities of UPPSD incurred prior to the commencement of the Entrusted Operation Period.

Benefiting from the Entrusted Operation, UPPSD was able to maintain operation of its production capacity, continuity of its workforce, relationship with its customers and suppliers, all of which contributed to preservation of the business value of UPPSD for its restructuring.

### **Details of actual funding provided for the Entrusted Operation**

During the Entrusted Operation Period, the actual investment put forward by Xiamen C&D Paper and Shandong Herun (pro-rata to their respective equity interests in Shandong Bairun) to Shandong Bairun for the Entrusted Operation was RMB100 million, comprising of (i) RMB20 million paid-in capital of Shandong Bairun; and (ii) RMB80 million shareholder's loan to Shandong Bairun. Such funding was possessed by Shandong Bairun independent of the funds and liabilities of UPPSD and had been fully utilised by Shandong Bairun to pay for the operating costs of the Entrusted Operation, such as raw materials, electricity costs and employee salaries (including costs of UPPSD's staff).

Following the commencement of the Entrusted Operation, products were produced from the Entrusted Assets and sold for income. Such income, which was kept by Shandong Bairun and segregated from the funds and liabilities of UPPSD, was sufficient to cover the continuing operational costs without the need for further financing.

During the Entrusted Operation Period, except for paying approximately RMB25 million to UPPSD for the purchase of raw materials and paying approximately RMB50 million to UPPSD for reimbursing the staff costs and taxes paid by UPPSD, Shandong Bairun did not provide any other funding to UPPSD.

The shareholder's loan of RMB80 million provided by Xiamen C&D Paper and Shandong Herun to Shandong Bairun was for a term of one year and carried an annual interest of 12%. Shandong Bairun has repaid such loan to Xiamen C&D Paper and Shandong Herun in full in July 2021.

### **Basis for entering into the Entrusted Operation Agreement**

Having considered the following factors, the Board was of the view that the entering into of the Entrusted Operation Agreement was a fair and reasonable measure to preserve operational value of UPPSD, given:

- (a) limited financial resources available to the Group;

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## LETTER FROM THE BOARD

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- (b) the amount of working capital to be provided by Shandong Bairun for the ongoing manufacturing operations of UPPSD to preserve its operational value for the Restructuring, with arrangements which would segregate such working capital from the indebtedness of UPPSD;
- (c) disruption to the operation of UPPSD caused by the actions of its creditors;
- (d) pressure exerted by the local government to maintain UPPSD's production and for the purpose of social stability;
- (e) likely deterioration in the value of UPPSD, which includes its assets, social and business value, due to any prolonged suspension of production. Prolonged suspension of operation of the Entrusted Assets would leave the machineries and equipment idle and lead to higher reactivation costs. It would also result in redundancy or resignation of over 900 employees, making it difficult to resume production when working capital became available. The loss of jobs and suspension of water, gas, electricity and heat supplied by UPPSD to the residents in the neighborhood area would compromise the social value of UPPSD. In addition, continuing inability to deliver goods, make purchase and settle trade payables would also bring a negative impact on the goodwill and credibility of UPPSD. By entering into Entrusted Operation Agreement with a view to resume independent operation, UPPSD can preserve its operation and business value and achieve a win-win situation for all the stakeholders involved;
- (f) operations to be carried out by Shandong Bairun to ring-fence the working capital from the indebtedness of UPPSD and the Group and any sales receipts generated therefrom; and
- (g) time required for potentially interested parties to conduct due diligence on the Group and to negotiate terms of restructuring of the indebtedness of the Group. The Investor was introduced by the local government when UPPSD was being considered of the entrusted operation and potential restructuring. At the time when negotiation was still at a preliminary stage, there were already a large number of creditors whom began to take actions against UPPSD, whilst the scale and amount of UPPSD's debt position was unclear at that time. If the Investor had to enter into a restructuring agreement with UPPSD or the Company at that time, the Investor would be exposed to substantial risk of unknown debts, and it would need to perform an in-depth legal and financial due diligence on UPPSD which was not permissible time wise in view of the reasons mentioned in the above. The parties decide to resume production of UPPSD by way of Entrusted Operation, which involves much less due diligence and negotiation, so that UPPSD could revive its production without delay or incurring substantial risk on the Investor.

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## LETTER FROM THE BOARD

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### **Accounting treatment of UPPSD in the Company's consolidated financial statements after entering into the Entrusted Operation Agreement and the Company's assessment on the Listing Rules implication of the Entrusted Operation Agreement**

The Entrusted Operation Agreement provided Shandong Bairun with the right to use the Entrusted Assets and employees in exchange for the immediate availability of working capital provided by Shandong Bairun to keep the Entrusted Assets in operation and maintain the workforce.

While Shandong Bairun would be responsible for the expenses incurred during the Entrusted Operation and entitled to keep income generated, ownership of the Entrusted Assets and employment contracts (and relevant obligations) remained with UPPSD. Shandong Bairun would not be entitled to any increase in value of the Entrusted Assets and the operations of UPPSD. Also, Shandong Bairun would not bear any risk of deterioration in value of the Entrusted Assets and risks of seizure of the Entrusted Assets (e.g. Shandong Bairun could terminate the Entrusted Operation Agreement if major assets of UPPSD were under bankruptcy proceedings or enforcement action such that it became impractical for Xiamen C&D Paper, Shandong Herun and Shandong Bairun to continue production in accordance with the terms of the Entrusted Operation Agreement).

The Company and UPPSD also retained control over UPPSD and the Entrusted Assets, including but not limited to selling assets of and/or interests in UPPSD and rights to reject any proposed addition and upgrade to the Entrusted Assets (as the case may be).

Despite the Company having lost control over UPPSD from 31 December 2020 and the financial results and position of UPPSD were deconsolidated from those of the Group with effect from 31 December 2020, the said deconsolidation was a result of the appointment of the UPPSD Bankruptcy Administrator whom had taken custody of the UPPSD's assets and company seal. On such basis, the deconsolidation was caused by the bankruptcy proceedings of UPPSD and the appointment of the UPPSD Bankruptcy Administrator by the PRC Court, and not by entering into the Entrusted Operation Agreement. Please see below the section headed "6. UPPSD Bankruptcy Reorganisation" for details of the UPPSD Bankruptcy Reorganisation and the appointment of the UPPSD Bankruptcy Administrator.

In view of the above, the Board is of the view that there is no impact on the accounting treatment of UPPSD in the Company's consolidated financial statement after entering into the Entrusted Operation Agreement; and the entering of the Entrusted Operation Agreement did not constitute the Company's disposal of UPPSD.

#### **UPPSD Bankruptcy Reorganisation**

On 23 December 2020, UPPSD was informed by the PRC Court, that a bankruptcy application was filed by Weifang Red Automation Equipment Co., Ltd\* (濰坊瑞德自動化設備有限公司), a creditor and an equipment provider of UPPSD, against UPPSD. UPPSD filed an objection letter to the PRC Court against the bankruptcy application. On 30 December 2020, UPPSD received a civil judgement issued by the PRC Court advising that the bankruptcy application was accepted.

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## LETTER FROM THE BOARD

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In the meantime, the Company and the JPLs continued discussions with various interested parties, including Xiamen C&D Paper and Zhejiang Xinshengda, on the potential restructuring of the Group. Subsequently, on 13 April 2021, the Company, the JPLs, Xiamen C&D Paper and Zhejiang Xinshengda entered into the Term Sheet with details set out in the Company's announcement dated 13 April 2021.

On 19 January 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into the Supplemental Agreement to the Entrusted Operation Agreement, which extended the term of the Entrusted Operation to 15 March 2022.

On 13 April 2021, UPPSD made an application to the PRC Court to convert the bankruptcy proceedings into a bankruptcy reorganisation with a view to facilitating a holistic restructuring of the Group involving the Company and UPPSD. On 20 April 2021, the PRC Court approved the conversion of the bankruptcy proceedings of UPPSD into a bankruptcy reorganisation.

On 23 April 2021, the UPPSD Bankruptcy Administrator convened the first creditors' meeting of UPPSD, at which the UPPSD Bankruptcy Administrator had, *inter alia*, confirmed the claims filed by the creditors against UPPSD. On 29 July 2021, the UPPSD Bankruptcy Administrator convened the second creditors' meeting of UPPSD, at which the UPPSD Bankruptcy Reorganisation plan was duly approved by the creditors and shareholders of UPPSD.

On 1 August 2021, the PRC Court approved the UPPSD Bankruptcy Reorganisation plan with effect on the same day. Following the PRC Court's approval of the UPPSD Bankruptcy Reorganisation plan, the Entrusted Operation Agreement was terminated and UPPSD had resumed its own operation without the Entrusted Operation. For details of the principal terms of the UPPSD Bankruptcy Reorganisation, please see the section headed "6. UPPSD Bankruptcy Reorganisation" below.

On 1 August 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into an agreement of termination to the Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement, pursuant to which the Entrusted Operation was terminated and UPPSD carries on its business operation on its own since 1 August 2021.

### THE RESTRUCTURING AGREEMENT

On 30 July 2021, the Company, the JPLs, the Investor, Xiamen C&D Paper, Zhejiang Xinshengda and Shandong Bairun entered into the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement dated 22 November 2021) in relation to the proposed Restructuring, which shall include, (i) the Capital Reorganisation; (ii) the Subscription; (iii) the Group Reorganisation; (iv) the Placement; (v) the Listco Scheme; (vi) the UPPSD Bankruptcy Reorganisation; and (vii) the Resumption. The Restructuring Agreement is the definitive agreement for the Restructuring.

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## LETTER FROM THE BOARD

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### **PARTIES TO THE RESTRUCTURING AGREEMENT**

- (1) The Company
- (2) The JPLs
- (3) The Investor
- (4) Xiamen C&D Paper
- (5) Zhejiang Xinshengda
- (6) Shandong Bairun

The Investor has confirmed to the Company and the JPLs that the Concert Party Group and their respective associates are Independent Third Parties, and are not acting in concert with, the Company, the Directors, the substantial Shareholders or any of their subsidiaries or their respective associates.

### **CONDITIONS PRECEDENT TO THE CLOSING**

The Closing shall be conditional upon the fulfilment of the following conditions precedent:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the SGM in accordance with the requirements of the Takeovers Code and any applicable laws and regulations to approve the following:
  - (i) the Capital Reorganisation;
  - (ii) the amendments to the Bye-Laws of the Company to reflect the Capital Reorganisation;
  - (iii) the Restructuring Agreement together with the transactions contemplated thereunder;
  - (iv) the grant of the Specific Mandates in respect of the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares;
  - (v) the Whitewash Waiver; and
  - (vi) the Special Deals;
- (b) the completion of the Capital Reorganisation, the Subscription, the Group Reorganisation and the Placement, and the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares;

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## LETTER FROM THE BOARD

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- (c) the Placing Agreement for Placement is not subject to any conditions precedent (other than the conditions precedent under the Restructuring Agreement becoming unconditional) and has not been terminated in accordance with its terms;
- (d) the Listing Committee of Stock Exchange has granted the approval for the listing of, and permission to deal in the Subscription Shares, the Placement Shares and the Creditors' Shares (with or without conditions) and such approval for the listing and permission not subsequently having been revoked or withdrawn prior to the commencement of dealings in such New Shares on the Stock Exchange, and the approval of the Resumption has been given by the Stock Exchange and such approval not having been revoked;
- (e) the granting of the Whitewash Waiver and consents to the Special Deals by the Executive and the satisfaction of all the conditions attached thereto and such approval and consents not having been subsequently revoked or withdrawn;
- (f) (i) obtaining the approval and/or recognition of the Hong Kong Court and/or the Bermuda Court of the Listco Scheme; and (ii) the Listco Scheme having become effective and the satisfaction of all the conditions precedent attached thereto;
- (g) the withdrawal of the Petition and the discharge of the JPLs;
- (h) obtaining all other necessary waivers, consents and approvals (including those from the Stock Exchange and the SFC) which are required for the implementation of the Restructuring and all transactions contemplated thereunder, including the Resumption;
- (i) obtaining the PRC Court's confirmation on the completion of the implementation of the UPPSD Bankruptcy Reorganisation as contemplated under the Restructuring Agreement or as recognised by the Investor;
- (j) obtaining all the necessary authorisations, consents and approvals from PRC authorities by the Investor, which shall include the state asset supervision authority and the anti-monopoly supervision authority; and
- (k) the due execution of all the transactional documents.

As of the Latest Practicable Date, other than those mentioned in other conditions precedent to the Closing, in relation to condition (h), parties to the Restructuring Agreement are not aware of any other necessary waivers, consents or approvals which are required for the implementation of the Restructuring and all transactions contemplated thereunder.

Conditions (a) to (k) are not waivable by any parties to the Restructuring Agreement. As at the Latest Practicable Date, other than conditions (f)(i) and (i) which have been fulfilled, none of the other conditions have been fulfilled. In relation to condition (g), on 10 December 2021, the Bermuda Court ordered the withdrawal of the Petition and the

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## LETTER FROM THE BOARD

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discharge of the JPLs conditional upon the Listco Scheme becoming effective. In relation to condition (j), the Xiamen SASAC has held a panel meeting to review the application made by the Investor and the Investor is preparing supplemental information requested by the Xiamen SASAC. The Investor expects to obtain approval from the Xiamen SASAC before mid-January 2022. The Investor has also made application to the Anti-Monopoly Bureau of the Ministry of Commerce in mid-December 2021 and expects to obtain such approval before 26 January 2022. As advised by the PRC legal adviser of the Investor, the Restructuring is expected to be unconditionally approved by the Anti-Monopoly Bureau of the Ministry of Commerce.

Closing is subject to fulfillment of the above conditions precedent. The Capital Reorganisation is expected to be completed (i) prior to the completion of the Subscription, the Group Reorganisation, the Placement, the taking effect of the Listco Scheme, and (ii) prior to the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares at the Closing. Completion of the Subscription, the Group Reorganisation, the Placement, and the taking effect of the Listco Scheme shall be inter-conditional with one another and take place simultaneously at the place and on such date as provided in the Restructuring Agreement, which shall in any event take place on or before the date of the Resumption. While the Closing is conditional to the completion of the UPPSD Bankruptcy Reorganisation, the completion of UPPSD Bankruptcy Reorganisation is not inter-conditional with, and may complete independently from other transactions contemplated under the Restructuring Agreement. As at the Latest Practicable Date, completion of UPPSD Bankruptcy Reorganisation has taken place.

### DEALINGS AND INTEREST IN THE SECURITIES OF THE COMPANY

The Investor, Xiamen C&D Paper and Zhejiang Xinshengda have confirmed to the Company and the JPLs that, as at the Latest Practicable Date, save for entering into the Restructuring Agreement, the Facility Agreement, the Subscription Agreement, the Placing Agreement for Placement, the Paperboard Sales Framework Agreement and any other related transaction documents:

- (a) the Concert Party Group does not hold, control or has direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (b) the Concert Party Group does not have any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Investor (save as holding the shares of the Investor) or the Company, which might be material to the transactions contemplated under the Restructuring Agreement including the Subscription, the Whitewash Waiver and the Special Deals;

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- (c) the Concert Party Group has not dealt in the Existing Shares, outstanding options, derivatives, warrants or other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) convertible or exchangeable into the Existing Shares during the Relevant Period;
- (d) the Concert Party Group has not borrowed or lent any of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (e) there is no agreement or arrangement pursuant to which any member of the Concert Party Group is a party which relates to circumstances which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Restructuring Agreement;
- (f) save for the Special Deals, there is no other understanding, arrangement, agreement or special deal between the Concert Party Group and any Shareholder;
- (g) they shall comply with applicable rules and regulations of the Listing Rules and the Takeovers Code;
- (h) they note that the Executive may not grant the Whitewash Waiver or consent to the Special Deals if the Restructuring Agreement and the transactions contemplated thereunder, the grant of the Specific Mandates, the Whitewash Waiver or the Special Deals do not comply with applicable rules and regulations, and shall not take any actions (including acquisition of the Existing Shares or New Shares) that withdraws the application for the Whitewash Waiver or the Special Deals, or revokes the granted Whitewash Waiver or the consent to the Special Deals; and
- (i) they shall provide all relevant information requested by the Stock Exchange and the SFC to the extent permissible under the applicable laws.

As at the Latest Practicable Date, save for the Special Deals and the Irrevocable Deed of Voting Undertakings, there is no understanding, arrangement or agreement or special deal between any Shareholders and the Company, its subsidiaries or associated companies.

As at the Latest Practicable Date, the executive Directors do not believe that the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver and the Special Deals give rise to any concerns in relation to compliance with applicable rules or regulations (including the Listing Rules and the Takeovers Code). The executive Directors note that the Executive may not grant the Whitewash Waiver or consents to the Special Deals if the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver and the Special Deals do not comply with applicable rules and regulations.

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### UNDERTAKINGS BY XIAMEN C&D PAPER AND ZHEJIANG XINSHENGDA

Each of Xiamen C&D Paper and Zhejiang Xinshengda unconditionally and irrevocably but severally undertakes to perform their respective obligations, commitments, undertakings, agreements, guarantees, compensations under the Restructuring Agreement and any other transaction documents, and procure the due and punctual performance by the Investor and Shandong Bairun of all their respective obligations under the Restructuring Agreement and any other transaction documents. Such obligations include, without limitation, to the following:

- (a) subscription of the Subscription Shares at the Subscription Price at Closing;
- (b) provision of guarantee to make payment to the SchemeCo of any shortfall between the Placing Price for Placing Out and the Issue Price of the Creditors' Shares under the Placing Agreement for Placing Out such that the SchemeCo would still receive the Issue Price of the Creditors' Shares for the Creditors' Shares on behalf of the relevant Scheme Creditors;
- (c) procuring the termination of the Entrusted Operation Agreement upon the PRC Court's approval of the UPPSD Bankruptcy Reorganisation plan;
- (d) provision of a loan of not less than RMB250 million by Shandong Bairun to SPV2 required for (i) fulfilling the First Instalment Payment obligations of UPPSD under the UPPSD Bankruptcy Reorganisation plan (which was estimated to be RMB170 million); and (ii) the daily business operations of UPPSD which was estimated to be not less than RMB80 million, upon fulfilment of the Payment Conditions. For details of the payment made by Shandong Bairun, please refer to the section headed "6. UPPSD Bankruptcy Reorganisation" below;
- (e) application of the Whitewash Waiver to relieve the Investor from the obligation to make a mandatory general offer as a result of the acquisition of the Subscription Shares;
- (f) provision of the necessary financial and operational information of the Concert Party Group to the Company and/or the JPLs for the purpose of preparing the Resumption Proposal; and
- (g) payment of the Restructuring Expenses of approximately HK\$35 million to the JPLs according to the agreed timetable set forth in the Restructuring Agreement.

Taking into account of the net liability position of the Group, the suspension of trading of the Shares and the audit issues as raised by the former auditors of the Company, it would not be feasible for the Company to obtain debt financing from banks or other financial institutions. As disclosed in the Company's announcement dated 30 September 2020, the Company and JPLs had actively identified and liaised with various interested parties with the view to explore options for developing and proposing the restructuring of the Group's indebtedness. Such communication included, among other matters, equity financing options available to the Company. Among those prospective parties identified for

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the proposed Restructuring, the JPLs received non-legally binding indicative offers from two potential investors. In comparing the two indicative offers received, the Subscription Price offered by Xiamen C&D Paper and Zhejiang Xinshengda represented a smaller discount to the theoretical closing price. After careful consideration of the key terms of the proposed restructuring and background of the interested parties, the Company and JPLs shortlisted the Investor on 30 July 2021, and entered into the Restructuring Agreement, the key terms of which represented the best option available to the Company in relation to the Restructuring.

Details of the Restructuring Agreement, together with the detailed arrangements of (1) the Capital Reorganisation; (2) the Subscription; (3) the Group Reorganisation; (4) the Placement; (5) the Listco Scheme; (6) the UPPSD Bankruptcy Reorganisation; and (7) the Resumption are set out below:

### 1. THE CAPITAL REORGANISATION

As at the Latest Practicable Date, the authorised ordinary share capital of the Company is HK\$145,691,398.70 comprising 1,456,913,987 ordinary Existing Shares, of which 1,141,075,827 ordinary Existing Shares have been issued and fully paid. The Company also has, as at the Latest Practicable Date, authorised preference share capital of HK\$14,308,601.3 comprising 143,086,013 Preference Shares, of which 132,064,935 Preference Shares have been issued and fully paid.

The Board proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation, which comprises of:

- (a) **the Capital Reduction** — the issued ordinary share capital of the Company shall be reduced by cancelling the paid up capital of the Company to the extent of HK\$0.095 on each of the issued Existing Shares such that the par value of each issued Existing Share shall be reduced from HK\$0.10 to HK\$0.005;
- (b) **the Authorised Share Capital Diminution** — upon the Capital Reduction becoming effective, all the authorised but unissued ordinary share capital shall be cancelled in its entirety;
- (c) **the Share Premium Cancellation** — upon the Capital Reduction becoming effective, the entire amount of approximately HK\$161,000,000 standing to the credit of the share premium account of the Company, being the aggregate amount subscribed for the Existing Shares in excess of such Existing Shares' par value at that time, shall be cancelled from the share premium account and credited to the contributed surplus reserve account of the Company;
- (d) **the Share Consolidation** — upon each of the Capital Reduction, the Authorised Share Capital Diminution and the Share Premium Cancellation becoming effective, every ten existing issued and unissued Existing Shares of HK\$0.005 each shall be consolidated into one New Share of HK\$0.05 each; and

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- (e) **the Increase in Authorised Share Capital** — upon each of the Capital Reduction, the Authorised Share Capital Diminution, the Share Premium Cancellation and the Share Consolidation becoming effective, the Company's authorised ordinary share capital will be increased from approximately HK\$5,710,000 divided into 114,107,582 New Shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 New Shares of HK\$0.05 each.

### **Effects of the Capital Reorganisation and status of the New Shares**

Upon completion of the Capital Reorganisation, the authorised ordinary share capital of the Company shall be HK\$100,000,000 divided into 2,000,000,000 New Shares of HK\$0.05 each, of which 114,107,582 New Shares have been issued and credited as fully paid. The authorised preference share capital shall be HK\$14,308,601 divided into 143,086,013 Preference Shares of HK\$0.1 each, of which 132,064,935 Preference Shares have been issued and credited as fully paid that can be converted into 13,206,493 New Shares on a ten-to-one conversion basis.

The credit of approximately HK\$108,000,000 arising from the Capital Reduction and the credit arising from the Share Premium Cancellation in the amount of approximately HK\$161,000,000 will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the laws of Bermuda and the Bye-Laws.

Upon the Capital Reorganisation becoming effective, the New Shares shall rank *pari passu* in all respects with each other.

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will not have a material adverse effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders in the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the return of capital or cash to the Shareholders, nor will it result in any change in the relative rights of the Shareholders.

### **Arrangement on Odd Lot Trading**

In order to alleviate the difficulties arising from the existence of odd lots of the New Shares arising from the Capital Reorganisation, the Company has appointed Prudential Brokerage Limited, who is an Independent Third Party and not a Shareholder, as an agent to stand in the market to provide matching services for sale and purchase of odd lots of the New Shares at the relevant market price per New Share on a best effort basis and the period of such matching services commences from 9:00 a.m. on Monday, 14 February 2022 and ends at 4:00 p.m. on Friday, 4 March 2022 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Sam Ng of Prudential Brokerage

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Limited at 9/F, World-wide House, 19 Des Voeux Road C, Central, Hong Kong (telephone number: 2143 3999) during office hours from 9:00 a.m. to 4:00 p.m. of such period.

Holders of odd lots of the New Shares should note that successful matching of the sale and purchase of odd lots of the New Shares are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

### **Free Exchange of Share Certificates**

Subject to the Capital Reorganisation becoming effective, Shareholders may submit existing Share certificates in green colour to the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for exchange for new share certificates for the New Shares of par value of HK\$0.05 each from Wednesday, 26 January 2022 to Tuesday, 8 March 2022 (both dates inclusive), in blue colour at the expense of the Company. Thereafter, the existing share certificates for the New Shares of par value of HK\$0.10 each will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange), for each new share certificate issued or each Existing Share certificate submitted for cancellation, whichever the number of share certificates issued or cancelled is higher. The Existing Share certificates will continue to be valid for delivery, trading and settlement purposes.

Unless previously redeemed, cancelled or converted, each holder of Preference Shares shall be entitled to convert in respect of the whole or any part of its Preference Shares into fully paid ordinary Shares on the basis of one ordinary Share for every Preference Share at any time after the date of issue of the Preference Shares upon the giving of a conversion notice, subject to, the holders of the Preference Shares shall not exercise their rights to convert the Preference Shares into ordinary Shares unless at least 25% of the Company's total issued ordinary share capital that are listed on the Stock Exchange will at all times be held by the public.

The number of ordinary Shares arising on any conversion of the Preference Shares shall be adjusted if, among others, there shall be an alteration to the nominal value of the ordinary Shares as a result of a consolidation or sub-division.

Upon completion of the Capital Reorganisation, the Preference Shares can be converted into New Share(s) on a ten-to-one conversion basis.

Save for the above disclosed adjustment on conversion basis, other rights and restrictions of the Preference Shares are not affected by the Capital Reorganisation. For details of other rights and restrictions carried by the Preference Shares, please refer to the prospectus issued by the Company dated 27 October 2008.

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The table below sets out the capital structure of the Company immediately before and after the completion of the Capital Reorganisation (assuming there is no change in the number of Shares from the Latest Practicable Date to immediately before the Capital Reorganisation):

	<b>Before completion of the Capital Reorganisation</b>		<b>After completion of Capital Reorganisation</b>	
	<b>Authorised</b>	<b>Issued</b>	<b>Authorised</b>	<b>Issued</b>
<b>Ordinary Shares</b>				
No. of shares	1,456,913,987	1,141,075,827	2,000,000,000	114,107,582
Par value	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.05 each</u>	<u>HK\$0.05 each</u>
Total (HK\$)	<u>145,691,398.70</u>	<u>114,107,582.70</u>	<u>100,000,000.00</u>	<u>5,705,379.10</u>
<b>Preference Shares</b>				
No. of shares	143,086,013	132,064,935	143,086,013	132,064,935
Par value	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>
Total (HK\$)	<u>14,308,601.30</u>	<u>13,206,493.50</u>	<u>14,308,601.30</u>	<u>13,206,493.50</u>

### **Reasons for the Capital Reorganisation**

The carrying value of the Company has been substantially depleted by accumulated losses of the Company of approximately HK\$2,730 million and has resulted in net liabilities as at 31 March 2021. The credit of approximately HK\$108,000,000 arising from the Capital Reduction and the credit arising from the Share Premium Cancellation in the amount of approximately HK\$161,000,000 will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the laws of Bermuda and the Bye-Laws.

In addition, completion of the Capital Reorganisation is one of the conditions precedent for the Placement and the Subscription, the proceeds of which will be used for settling the Restructuring Expenses and discharging the debts of the Company under the Listco Scheme. Accordingly, the Directors are of the view that the Capital Reorganisation is in the interests of the Group and the Shareholders as a whole.

Please refer to the section headed “Reasons for entering into the Restructuring Agreement” for other reasons for the Capital Reorganisation.

### **Conditions of the Capital Reorganisation**

The completion of the Capital Reorganisation (which will be effected in accordance with the Bye-Laws and the Bermuda Companies Act) is conditional upon:

- (a) the passing of a special resolution by the Independent Shareholders to approve the Capital Reorganisation at the SGM;

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- (b) the Stock Exchange granting the listing of, and permission to deal in, the New Shares allotted and issued following the Capital Reorganisation; and
- (c) compliance with the relevant procedures and requirements under sections 45 and 46 of the Bermuda Companies Act to effect the Capital Reorganisation, including (i) publication of notice of the Capital Reorganisation in Bermuda in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the date on which the Capital Reorganisation is to take effect; and (ii) obtaining of the Directors' confirmation confirming that on the date on which the Capital Reduction is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they fall due.

For the avoidance of doubt, the Capital Reorganisation is not conditional on the completion of the Placement or the Subscription.

All of the abovementioned conditions cannot be waived by any of the parties to the Restructuring Agreement. As at the Latest Practicable Date, none of the conditions have been fulfilled.

## 2. THE SUBSCRIPTION

Pursuant to the terms and conditions of the Restructuring Agreement, the Company shall allot and issue, and the Investor shall subscribe for 990,220,583 Subscription Shares at the Subscription Price for a total consideration of HK\$119,872,142. Upon the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares at Closing, the Subscription Shares represent approximately 70% and 70.66% of the then enlarged issued share capital of the Company, respectively, in case all the Preference Shares have been converted and none of the Preference Shares have been converted. For this purpose, the Company, the Investor and the JPLs have entered into the Subscription Agreement on 26 October 2021. The Subscription is conditional upon the satisfaction of the conditions precedent provided under the Subscription Agreement.

### **Status of the Subscription Shares**

The Subscription Shares to be allotted and issued will rank *pari passu* in all respects with the New Shares and will have the same voting, dividend and other rights attached or accruing thereto as from the date of allotment and issue of the Subscription Shares.

The Subscription Price, which is same as the Placement Share Price and the Issue Price of the Creditors' Shares, represents:

- (a) a discount of approximately 96.68% to the theoretical closing price of HK\$3.65 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (b) a discount of approximately 96.61% to the average theoretical closing price of HK\$3.57 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.357 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 96.71% to the average theoretical closing price of HK\$3.68 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.368 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (d) a discount of approximately 98.90% to the Group's audited consolidated net asset value per New Share of approximately HK\$11.02 as at 31 March 2020, based on audited consolidated net asset value attributable to Shareholders of approximately HK\$1,257,709,000 as at 31 March 2020 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective;
- (e) a premium of approximately HK\$19.23 to the Group's audited consolidated net liabilities per New Share of approximately HK\$19.11 as at 31 March 2021, based on audited consolidated net liabilities attributable to the Shareholders of approximately HK\$2,180,599,000 as at 31 March 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective; and
- (f) a premium of approximately HK\$17.39 over the Group's unaudited consolidated net liabilities per New Share of approximately HK\$17.27 as at 30 September 2021, based on unaudited consolidated net liabilities attributable to the Shareholders of approximately HK\$1,970,776,000 as at 30 September 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective.

The unaudited pro forma net assets value per Subscription Share as at 30 September 2021 is approximately HK\$0.3255 (based on the unaudited pro forma adjusted consolidated net assets being approximately HK\$456,115,000 as at 30 September 2021 as if the proposed Restructuring had been completed on 30 September 2021 as set out in the section headed "Unaudited Pro Forma Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss of the Group" in Appendix II to this circular and number of New Shares being 1,401,394,339 after the Capital Reorganisation and as enlarged by the issue of the Subscription Shares, the Placement Shares and the Creditors' Shares).

The Subscription Price was determined after arm's length negotiations between the Company and the Investor having considered factors including the suspension of trading of the Shares of the Company, the prevailing market conditions, the financial position and prospects of the business operation of the Retained Group.

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The Subscription Proceeds shall be used for (i) settling the Restructuring Expenses in the amount of approximately HK\$35,000,000; and (ii) discharging the debts of the Company under the Listco Scheme in the amount of approximately HK\$3,046 million. The Restructuring Expenses will be paid by the Investor in advance in accordance with the terms and conditions in the Restructuring Agreement on or prior to the Closing and will be off-set against the total consideration payable by the Investor upon completion of the Subscription on a dollar-to-dollar basis.

### **Conditions of the Subscription**

Pursuant to the Subscription Agreement, the implementation of the Subscription is conditional upon:

- (a) completion of the Capital Reorganisation;
- (b) the passing of the necessary resolutions by the Independent Shareholders at the SGM to approve (i) the Restructuring Agreement together with the transactions contemplated thereunder; (ii) the allotment and issue of the Subscription Shares, the Placement Shares and Creditors' Shares, (iii) the Whitewash Waiver; and (iv) the Special Deals;
- (c) UPPSD becoming a registered wholly-owned subsidiary of SPV2 and obtaining the PRC Court's confirmation on the completion of the implementation of the UPPSD Bankruptcy Reorganisation plan as contemplated under the Restructuring Agreement or as recognised by the Investor;
- (d) (i) obtaining the approval and/or recognition of the Hong Kong Court and/or the Bermuda Court of the Listco Scheme; and (ii) the satisfaction of all the conditions precedent attached thereto (other than completion of the Subscription);
- (e) the granting of the Whitewash Waiver and the consents to the Special Deals by the Executive and the satisfaction of all the conditions attached thereto and such approval and consent not having been subsequently revoked or withdrawn;
- (f) the approval for listing of, and permission to deal in the Subscription Shares, the Placement Shares and the Creditors' Shares having been granted by the Listing Committee of the Stock Exchange (with or without conditions), and such approval for the listing and permission not being subsequently withdrawn or revoked, and the approval of the Resumption has been given by the Stock Exchange and such approval not having been revoked;
- (g) obtaining all necessary consent, approval and waiver (including but without limitation to from the Stock Exchange and the SFC) in relation to transactions contemplated under the Subscription Agreement, including the Resumption; and

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- (h) obtaining all the necessary authorisations, consents and approvals from PRC authorities by the Investor, which shall include those from state asset supervision authority and the anti-monopoly supervision authority.

None of the abovementioned conditions can be waived by any parties to the Subscription Agreement. As at the Latest Practicable Date, conditions (c) and (d)(i) above have been fulfilled. In relation to condition (h), the Xiamen SASAC has held a panel meeting to review the application made by the Investor and the Investor is preparing supplemental information requested by the Xiamen SASAC. The Investor expects to obtain approval from the Xiamen SASAC before mid-January 2022. The Investor has also made an application to the Anti-Monopoly Bureau of the Ministry of Commerce in mid-December 2021 and expects to obtain such approval before 26 January 2022. As advised by the PRC legal adviser of the Investor, the Restructuring is expected to be unconditionally approved by the Anti-Monopoly Bureau of the Ministry of Commerce.

As of the Latest Practicable Date, other than those mentioned in other conditions precedent to the completion of the Subscription, in relation to condition (g), parties to the Subscription Agreement are not aware of any other necessary waivers, consents or approvals in relation to the transaction contemplated under the Subscription Agreement.

The Subscription is inter-conditional with the Group Reorganisation, the Placement and the taking effect of the Listco Scheme, and the Subscription Shares, the Placement Shares and Creditors' Shares will be issued simultaneously.

### 3. THE GROUP REORGANISATION

Pursuant to the Restructuring Agreement, the Group Reorganisation shall involve:

- (a) the incorporation of SPV1 in Hong Kong, which shall be wholly-owned by the Company;
- (b) the incorporation of SPV2 in the PRC, which shall be wholly-owned by SPV1;
- (c) SPV2 becoming the sole registered shareholder of UPPSD through the UPPSD Bankruptcy Reorganisation;
- (d) upon Closing, to effectuate the transfer of the Excluded Subsidiaries to the SchemeCo for the benefit of the Scheme Creditors by transferring the entire equity interests of Samson Paper (BVI) Ltd (being the holding company of the Excluded Subsidiaries and a directly wholly-owned subsidiary of the Company) held by the Company to the SchemeCo at a nominal consideration of HK\$1.0. The Retained Group will be principally engaged in paper manufacturing business;

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## LETTER FROM THE BOARD

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- (e) provision of a loan of not less than RMB80 million by Shandong Bairun to SPV2 which will be used in the daily business operations of UPPSD (which forms part of the loan of not less than RMB250 million to be provided by Shandong Bairun to SPV2 under the UPPSD Bankruptcy Reorganisation, the remaining RMB170 million of which will be used for the First Instalment Payment);
- (f) the completion of the implementation of the UPPSD Bankruptcy Reorganisation plan; and
- (g) the above-mentioned loan would be secured by a charge over the shares of each of SPV1, SPV2 and UPPSD and the appropriate assets of UPPSD created in favour of the Investor or Shandong Bairun by way of a first priority fixed charge, which shall be discharged upon the completion of the Group Reorganisation.

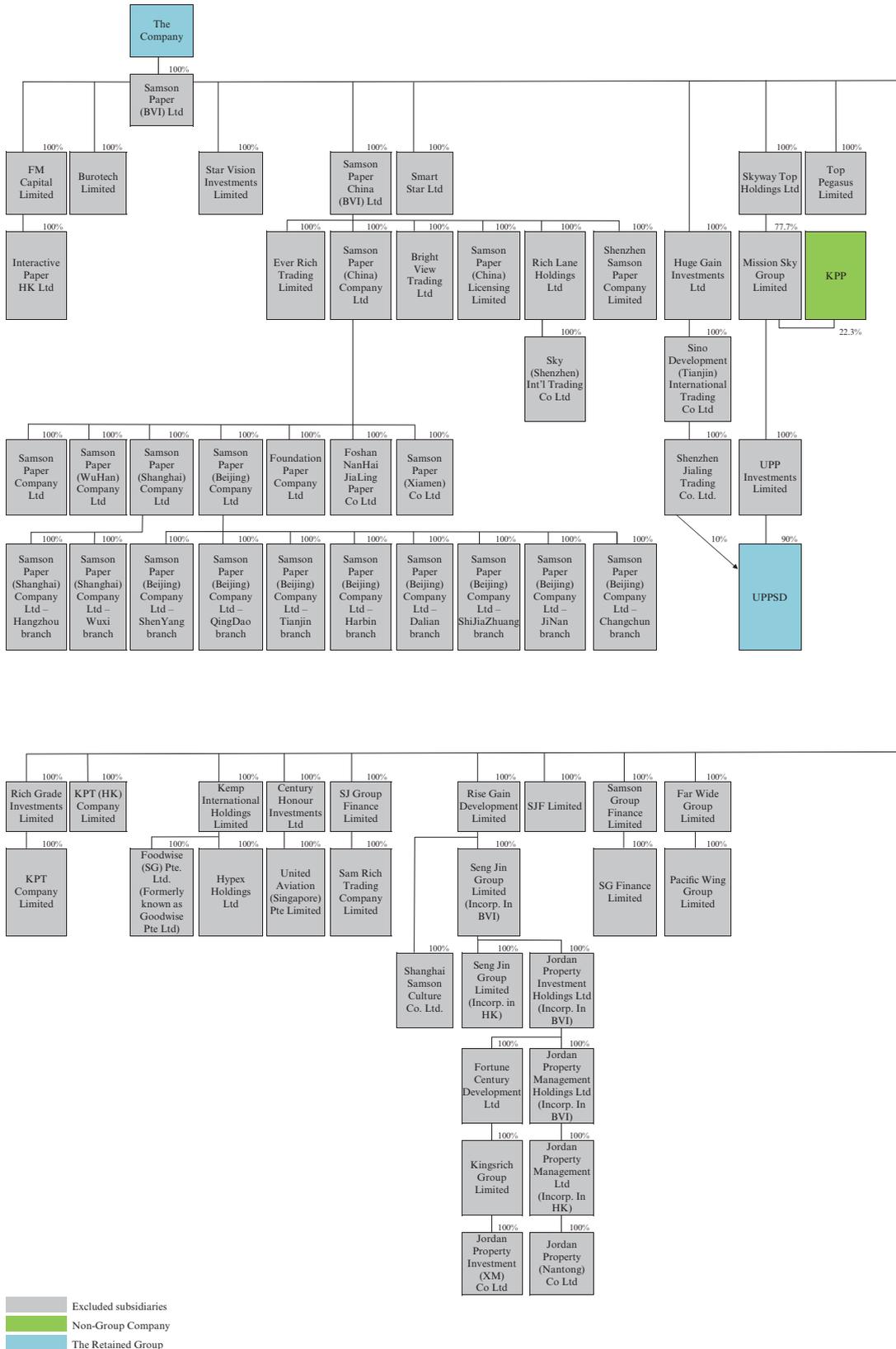
As at the Latest Practicable Date, other than step (d), all the above steps have been completed.

Prior to completion of the UPPSD Bankruptcy Reorganisation, UPPSD was indirectly owned as to 80% by the Company and 20% by KPP. As at the Latest Practicable Date, KPP held no interest in UPPSD and SPV2 became the sole registered shareholder of UPPSD.

Among various businesses of the Group, the Company considered that the paper manufacturing business shall be retained by the Retained Group as it has sufficient level of operation and tangible and intangible assets, a sizeable and integrated production plant and sufficient amount of work force which support a sustainable business. After considering that the other business segments of the Group were vulnerable to liquidity crisis because of their high overheads and working capital requirements, they shall not be retained by the Retained Group and will be wound down or realized in an orderly manner.

# LETTER FROM THE BOARD

Set out below is the Group structure before the Group Reorganisation:



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## LETTER FROM THE BOARD

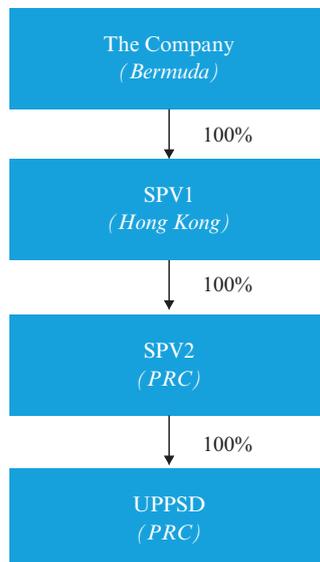
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The Excluded Subsidiaries were principally engaged in (i) paper trading business; (ii) FMCG business; (iii) PID business; and (iv) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. Upon completion of the Group Reorganisation, the Excluded Subsidiaries will cease to be subsidiaries or associates of the Company.

Upon completion of the Group Reorganisation, the Retained Group will only comprise the Company and its three wholly-owned subsidiaries, being SPV1, SPV2 and UPPSD. SPV1 and SPV2 are either investment holding companies or companies principally engaging in administrative functions for the Retained Group as at the Latest Practicable Date, while UPPSD continues the existing paper manufacturing business of the Retained Group as at the Latest Practicable Date. The paper manufacturing business shall be retained as the core business of the Retained Group due to its key features as follows:

- (a) integrated production plant with annual production capacity of approximately 460,000 tonnes located in Shandong province, the PRC;
- (b) standalone financial performance since the Group's acquisition of its paper manufacturing facility in 2008;
- (c) uninterrupted production (via the Entrusted Operation) amid the liquidity crisis of the Group since July 2020; and
- (d) integration of the business of UPPSD and the Investor which is owned by Xiamen C&D Paper and Zhejiang Xinshengda, each being one of the leaders in the paper and pulp industry in the PRC.

Set out below is the structure of the Retained Group immediately after the completion of the Group Reorganisation:



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## LETTER FROM THE BOARD

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### 4. THE PLACEMENT

Pursuant to the Restructuring Agreement, on 28 December 2021, the Placing Agreement for Placement has been entered into amongst the Company, the Investor and the Placing Agent for Placement, pursuant to which the Placing Agent for Placement undertakes to place, on a fully underwritten basis, 56,584,032 Placement Shares to not less than six Placee(s) at the Placement Share Price.

Kingkey, except for acting as the Placing Agent for Placement and the Placing Agent for Placing Out, is a third party independent of the Company, its connected persons, the Investor and any of their respective associates, and is not a Shareholder. Save for the arrangements as disclosed in this circular, there is no agreement or arrangement between Kingkey, the Company, the Investor or any member of the Concert Party Group.

#### **Placing Commitment**

The Placing Agent for Placement shall, on a fully underwritten basis, place, or procure the placing of, the Placement Shares in fulfillment of the Placing Commitment in the capacity as the Company's agent.

In the event that the Placing Agent for Placement fails to place, or procure the placing of, the relevant Placement Shares in fulfillment of the relevant Placing Commitment under the Placing Agreement for Placement, the Placing Agent for Placement itself shall, as principal, subscribe for such Placement Shares representing the Placing Commitment less those Placement Shares already agreed to be subscribed by the Placees procured by it.

The Placing Agent for Placement may carry out the Placement itself and/or through the Sub-agent(s). All fees, commissions, costs and expenses of such Sub-agents shall be paid by the Placing Agent for Placement out of the commissions, charges and expenses payable by the Investor to the Placing Agent for Placement under the Placing Agreement for Placement.

After taking into account the Subscription Shares, the Placement Shares and the Creditors' Shares allotted and issued, (i) assuming that none of the Preference Shares have been converted, the number of Placement Shares shall represent approximately 4.04% of the then issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares; and (ii) assuming that all the Preference Shares have been fully converted, the number of Placement Shares shall represent approximately 4.00% of the Enlarged Capital.

Each of the Placing Agent for Placement, the Sub-agents and the Placees (or as the case may be, their ultimate beneficial owner(s)) thereunder shall not be a Shareholder prior to the Placement Completion Date or member of the Concert Party Group and otherwise will be an Independent Third Party.

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## LETTER FROM THE BOARD

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As the costs and expenses of the Placement in the amount of approximately HK\$352,500 will be solely borne by the Investor, the net proceeds from the Placement will be equivalent to the gross proceeds of approximately HK\$6,849,836.58, which shall be used for discharging part of the debts of the Company under the Listco Scheme of approximately HK\$3,046 million as at 31 March 2021. It has been commercially agreed by the parties to the Placing Agreement for Placement that the costs and expenses of the Placement and placing commission shall be paid by the Investor since the amount of the net proceeds of the Placement which will be used for discharging of debts of the Company under the Listco Scheme has been approved by the Scheme Creditors and the Hong Kong Court, and therefore payment by the Company of any such costs or commission would affect the amount of the net proceeds of the Placement available for the Listco Scheme.

### Issue statistics

- Number of Shares in issue as at the Latest Practicable Date : 1,141,075,827 Shares
- Number of New Shares in issue upon completion of the Capital Reorganisation : 114,107,582 New Shares
- Number of Placement Shares to be issued : 56,584,032 Placement Shares, taking into account entitlements of holders of the Preference Shares, representing:
- (a) approximately 4.96% of the existing issued share capital of the Company;
  - (b) approximately 49.59% of the issued share capital of the Company upon completion of the Capital Reorganisation;
  - (c) approximately 33.15% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the Placement Shares;
  - (d) approximately 4.04% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the Placement Shares, the Subscription Shares and the Creditors' Shares; and
  - (e) approximately 4.00% of the Enlarged Capital.

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## LETTER FROM THE BOARD

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Total number of New Shares in issue as enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares : 1,401,394,339 New Shares

Placement Share Price : HK\$0.121056 per Placement Share payable in full on application

As at the Latest Practicable Date, there are 1,141,075,827 Shares in issue; and save for 132,064,935 Preference Shares (which, subject to the Bye-Laws, can be converted into 13,206,493 New Shares on a ten-to-one conversion basis) in issue, there are no other outstanding options, warrants, derivatives or convertible securities in issue which confer any rights to subscribe for, convert or exchange into the Shares as at the Latest Practicable Date.

### **Placement Share Price**

The Placement Share Price is the same as the Subscription Price and the Issue Price of the Creditors' Shares, which is determined after arm's length negotiations between the Company and the Placing Agent for Placement having considered factors including the suspension of trading of the Shares of the Company, the prevailing market conditions, the financial position and the prospects of the business operation of the Retained Group. Please refer to the section headed "2. The Subscription" for details of the Subscription Price.

### **Status of the Placement Shares**

The Placement Shares (when fully paid and allotted) will rank *pari passu* in all respects among themselves and the New Shares in issue as at the date of allotment and issue of the Placement Shares, including all rights to all future dividends or distributions, which may be declared, made or paid by the Company on or after the date of allotment and issue of the Placement Shares, as well as rights to voting and interest in capital.

### **Placement commission**

Upon Closing, the Investor undertakes to pay the Placing Agent for Placement a placing commission of 5.0% of the aggregate amount which is equal to the Placement Share Price multiplied by the number of the Placement Shares being placed by the Placing Agent for Placement upon receipt of subscription moneys by the Company for such Placement Share.

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## LETTER FROM THE BOARD

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Such placing commission was arrived at after arm's length negotiation between the Investor and the Placing Agent for Placement by reference to the size, the current market condition and the time allowed for the Placing Agent for Placement to procure the placing of the Placing Shares.

### **Placees**

The Placement Shares will be placed to not less than six independent Placees, failing which the Company will disclose their identities in an announcement on the Placement Completion Date pursuant to the Listing Rules. The Placees and their ultimate beneficial owners shall not be Shareholders or connected persons of the Company pursuant to the Listing Rules and shall not be members of the Concert Party Group under the Takeovers Code. None of the Placees will become a substantial Shareholder (as defined in the Listing Rules) immediately after the completion of the Placement.

### **Conditions precedent to the Placement**

The completion of the Placement is conditional upon the following conditions being fulfilled:

- (a) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM to approve the Restructuring Agreement (and the transactions contemplated thereunder); and the allotment and issue of the Placement Shares, Subscription Shares and Creditors' Shares;
- (b) the Listing Committee of Stock Exchange has granted the approval for the listing of, and permission to deal in the Subscription Shares, the Placement Shares and the Creditors' Shares (with or without conditions), and such approval for the listing and permission not being subsequently withdrawn or revoked;
- (c) all requirements and conditions imposed by the Stock Exchange or the SFC or under the Listing Rules otherwise in connection with the Placing Agreement for Placement and the transactions contemplated thereunder having been fulfilled or complied with;
- (d) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda; and
- (e) the Placing Agreement for Placement is not being terminated in accordance with its terms.

All of the abovementioned conditions cannot be waived by any of the parties to the Restructuring Agreement. As at the Latest Practicable Date, none of the conditions have been fulfilled.

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## LETTER FROM THE BOARD

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The Placement is inter-conditional with the Group Reorganisation, the Subscription and the taking effect of the Listco Scheme; and the Subscription Shares, the Placement Shares and the Creditors' Shares will be issued simultaneously.

### **Rescission**

If any of the following events occurs at any time prior to 10:00 a.m. on the Placement Completion Date, the Placing Agent for Placement may at its absolute discretion, by giving a written notice to the Company, at any time prior to 10:30 a.m. on the Placing Completion Date rescind the Placing Agreement for Placement without liability to the other party thereto or any thereof and, subject to certain provisions of the Placing Agreement for Placement (such as confidentiality as well as applicable law and jurisdiction) which shall continue, the Placing Agreement for Placement shall thereupon cease to have effect and none of the parties to the Placing Agreement for Placement shall have any rights or claims by reason thereof, save for any antecedent breaches:

- (a) there shall have been since the date of the Placing Agreement for Placement such a change in national or international financial, political or economic conditions or taxation or exchange controls as would be likely to prejudice materially and adversely the consummation of the Placement;
- (b) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any matter whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Retained Group as a whole; or
- (c) any material breach of any of the representations and warranties set out in the Placing Agreement for Placement comes to the knowledge of the Placing Agent for Placement or any event occurs or any matter arises on or after the date of the Placing Agreement for Placement and prior to 10:00 a.m. on the Placement Completion Date which if it had occurred or arisen before the date of the Placing Agreement for Placement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement for Placement.

### **5. THE LISTCO SCHEME**

As at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million. The indebtedness figure stated above is indicative only and the payment to the claims of the creditors of the Company will be subject to the arrangement of the Listco Scheme. After reviewing the notices of claim received, the books

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## LETTER FROM THE BOARD

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and records recovered by the JPLs and the list of Shareholders of the Company, as at the Latest Practicable Date, other than DaiEi, none of the Scheme Creditors holds any Shares. Pursuant to the Restructuring Agreement, the principal terms of the Listco Scheme include:

- (a) upon the Listco Scheme becoming effective, all the claims of the Scheme Creditors, in the total amount of approximately HK\$3,046 million, shall be fully and finally discharged under the Listco Scheme by the SchemeCo by way of below:
  - (i) the SchemeCo shall accept and assume an equivalent liability in place of the Company in respect of the claims of creditors of the Company; and
  - (ii) in return, the Scheme Creditors will be entitled to receive dividends (from the realization of the assets of the SchemeCo) pursuant to the Listco Scheme in full and final settlement to the Scheme Creditors' claims against the SchemeCo;
- (b) the Scheme Administrators shall incorporate the SchemeCo to hold and realise assets of the SchemeCo for distribution to the Scheme Creditors and settle the costs and expenses arising from the implementation of the Listco Scheme in accordance with the terms of the Listco Scheme;
- (c) the transfer of the Excluded Subsidiaries to the SchemeCo;
- (d) the assets of the SchemeCo to be realised for the benefit of the Scheme Creditors shall include:
  - (i) the remaining balance of the gross Subscription Proceeds of approximately HK\$119,872,142, after deducting the Restructuring Expenses;
  - (ii) the 240,482,142 Creditors' Shares to be allotted and issued by the Company to the SchemeCo at the Issue Price of the Creditors' Shares for the benefit of the Scheme Creditors as part of the Listco Scheme, representing approximately 17.16% of the issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares, assuming none of the Preference Shares have been converted; and approximately 17.0% of the Enlarged Capital assuming all Preference Shares have been fully converted, subject to the right to dispose the Creditors' Shares either (i) in the open market; or (ii) to the Places under the Placing Out and the Price Protection as detailed in paragraph (f) below;
  - (iii) the gross proceeds for the Placement of approximately HK\$6,849,837;
  - (iv) the shares and/or other assets of the Excluded Subsidiaries;
  - (v) the amount due from the Excluded Subsidiaries to the Retained Group in the sum of approximately HK\$300 million;

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## LETTER FROM THE BOARD

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- (vi) the cash, bank deposits and account receivables of the Company as at the effective date of the Listco Scheme (apart from the account receivables due from the Retained Group);
  - (vii) all claims or litigations and all potential claims or litigation rights against third parties raised by the Retained Group (to the extent transferrable under the applicable law and approved by the relevant party);
- (e) in relation to the aforementioned Creditors' Shares to be allotted and issued by the Company to the SchemeCo for the benefit of the Scheme Creditors, as soon as practicable after the Listco Scheme becoming effective and the Scheme Administrators having adjudicated the claims of all creditors of the Company, they shall fix the respective entitlement of the Creditors' Shares of each Scheme Creditor by making reference to the amount of admitted claim of each Scheme Creditor to the total amount of admitted claims of all Scheme Creditors. The Scheme Administrators shall issue a notice to each Scheme Creditor in relation to its entitlement of the Creditors' Shares, and each Scheme Creditor shall have the option to (i) request the SchemeCo to deposit its entitled Creditors' Shares into a CCASS securities account designated by the Scheme Creditor or to be delivered physical certificate representing the entitled Creditors' Shares; or (ii) receive cash to be realised from the disposal of the Creditors' Shares held by the SchemeCo for their benefits as detailed in (f) below; and
- (f) the Scheme Creditors electing to hold the Creditors' Shares in their own names or through CCASS are not entitled to the Price Protection. Only the SchemeCo (for the benefit of the Scheme Creditors other than the Scheme Creditors who elected to hold the Creditors' Shares in their own names or through CCASS) shall have the right (exercisable by the Scheme Administrators in their absolute discretion) to dispose of the Creditors' Shares on behalf of the relevant Scheme Creditors, either (i) in the open market at the market price; or (ii) by instructing the Placing Agent for Placing Out one or more times during the Placing Out Period to place such number of Creditor's Shares to the Placees and, given the Price Protection will be in place, realise such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares, thereby offering a certain minimum realisation from the Creditors' Shares in exchange for the relevant Scheme Creditors discharging and releasing their admitted claims against the Company, subject to the passing of the necessary resolutions by the Shareholders at the SGM to approve the Special Deal III. The Investor will enter into the Placing Agreement for Placing Out with the Scheme Administrators (on behalf of the Scheme Creditors), the SchemeCo and the Placing Agent for Placing Out at Closing. In any event, the shareholding of the Investor and the Concert Party Group in the Company will not exceed 75% of the issued Shares as the Creditors' Shares are held by the Scheme Creditors, who are members of the public, in their own names or through CCASS, or to be sold in the open market, or placed out in part or in full under the Placing Agreement for Placing Out.

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## LETTER FROM THE BOARD

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The relevant proceeds of the sale of the Creditors' Shares, after deducting the costs of realisation and payment of any applicable taxes or duties, will be paid by the Scheme Administrators to that Scheme Creditor in full satisfaction of his rights to those Creditors' Shares as and when such disposal has been completed.

Each of the Placing Agent for Placing Out and the Placees thereunder (or as the case may be, their ultimate beneficial owner(s)) shall not be a Shareholder prior to the completion of the Placing Out or member of the Concert Party Group and otherwise will be an Independent Third Party. Although the SchemeCo will be holding the Creditors' Shares representing approximately 17.0% of the Enlarged Capital for the benefit of the Scheme Creditors, the Company is of the view that such Creditors' Shares shall be regarded as Shares held in public hands for following reasons:

- (a) The SchemeCo is a special purpose vehicle to be established or incorporated in Hong Kong by the Scheme Administrators in the first week of January 2022 to hold and realize, amongst others, the Creditors' Shares on behalf and for the benefit of the Scheme Creditors. Unless otherwise held by the Scheme Creditors in their own names or through CCASS, the beneficial ownership of the Creditors' Shares rests with a diverse group of Scheme Creditors;
- (b) To the best knowledge of the Company, none of the Scheme Creditors or their ultimate beneficial owners is a core connected person of the Company as defined in the Listing Rules. Further, based on the available books and records of the Company, it is expected that none of the Scheme Creditors will be entitled to Creditors' Shares representing 10% or more of the Company's total enlarged issued share capital upon Closing;
- (c) In dealing with and realizing assets of the SchemeCo, the Scheme Administrators shall, from time to time, consult the Scheme Creditors who are the beneficial owners of the assets of the SchemeCo. Upon the Listco Scheme becoming effective, a committee of Scheme Creditors consisting of three members who are Scheme Creditors and are elected by the Scheme Creditors by majority vote shall be formed to provide advice and guidance regarding the administration of the Listco Scheme. If the Scheme Administrators do not agree with the advice of the aforementioned committee of Scheme Creditors on any matter, they may defer the matter to the entire group of the Scheme Creditors or apply to the Hong Kong Court for direction. Therefore, the Scheme Creditors (who are members of public) could decide how the Creditors' Shares are to be dealt with; and
- (d) In respect of the voting rights of the Creditors' Shares held by the SchemeCo (except those held by the Scheme Creditors in their own name or through CCASS) at any general meeting of the Company, the SchemeCo acting by the Scheme Administrators shall provide the relevant information (including but not limit to announcements, circular, notice of general meetings) to the Scheme Creditors and seek voting instructions from each of the Scheme Creditors. The Scheme Administrators will ascertain the voting instruction of

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## LETTER FROM THE BOARD

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each of the 240,482,142 Creditors' Shares (less those held by the Scheme Creditors in their own name or through CCASS) and cast vote at the general meeting of the Company with the respective number of Creditors' Shares accordingly.

### **Conditions of the Listco Scheme**

The taking effect of the Listco Scheme is conditional upon:

- (a) obtaining the approval of the Listco Scheme from the Scheme Creditors at the meeting of the Scheme Creditors; and
- (b) (i) obtaining the approval and/or recognition of the Hong Kong Court and/or the Bermuda Court of the Listco Scheme, and (ii) registration of a copy of each of the relevant Court Order(s) approving and/or recognising the Listco Scheme with the registrars of companies in Hong Kong and/or Bermuda, respectively, no earlier than the date of Closing.

The Listco Scheme shall be effective on the date when all the conditions set out above are satisfied.

Conditions (a) and (b) above are not waivable. As at the Latest Practicable Date, the conditions (a) and (b)(i) above have been fulfilled. The taking effect of the Listco Scheme is inter-conditional with the Subscription, the Group Reorganisation and the Placement, and the Subscription Shares, Placement Shares and Creditors' Shares will be issued simultaneously. The Creditors' Shares will rank *pari passu* in all respects with the New Shares in issue as at the date of allotment and issue of the Creditors' Shares.

### **Application for listing of the Subscription Shares, Placement Shares and Creditors' Shares**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, Placement Shares and Creditors' Share.

### **Placees under the Placement and Placing Out**

Pursuant to the Placing Agreement for Placement and the Placing Agreement for Placing Out, the Placing Agent shall ensure that:

- (i) each of the Placees and/or their respective ultimate beneficial owner(s) is independent of and not connected with, and is not acting in concert with the Company and its connected persons; and

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## LETTER FROM THE BOARD

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- (ii) immediately after the Placement and the Placing Out, none of the Placees will become a substantial Shareholder of the Company as a result of the Closing when aggregating with those Shares held by it at the time of the Closing and those Shares to be issued or acquired upon exercise of any rights under any securities held by it at the time of the Closing.

### 6. UPPSD BANKRUPTCY REORGANISATION

Pursuant to the Restructuring Agreement, parties shall undertake and agree to use their best endeavours to procure the conversion of the bankruptcy proceedings of UPPSD into a bankruptcy reorganisation with a view to facilitating a holistic restructuring of the indebtedness of UPPSD, and the completion of the implementation of the UPPSD Bankruptcy Reorganisation as contemplated under the Restructuring Agreement and as approved by the PRC Court or as recognised by the Investor. The principal terms of the UPPSD Bankruptcy Reorganisation include, *inter alia*:

- (a) SPV2 becoming the sole registered shareholder of UPPSD through the UPPSD Bankruptcy Reorganisation;
- (b) settlement of four creditors' priority claims with an aggregate amount of RMB4,960,533.58 in one lump sum payment by cash in priority to other creditors with unsecured claims, with their unsecured claims totalling RMB1,084,101,760.80 settled in the method as provided in (d), (e) and (f) below;
- (c) settlement of two creditors' verified tax claims with an aggregate amount of RMB48,333,787.65 in one lump sum payment by cash;
- (d) settlement of each creditor's unsecured claims with principal amount of RMB200,000 (inclusive) or below in full by cash;
- (e) for each creditor's unsecured claims with principal amount exceeding RMB200,000, settlement will be completed within four years in five instalments of 20% every year. The First Instalment Payment shall be made to repay creditor's unsecured claim of principal amount below RMB200,000 (inclusive) and 20% of the principal amount in excess of RMB200,000. The balance of approximately RMB234.5 million will be paid in four equal subsequent instalments of approximately RMB58.6 million each (each of which represents 20% of the principal amount in excess of RMB200,000) on or before the first, second, third and fourth anniversary date of the First Instalment Payment. Remaining debts shall not bear any interest for the period of settlement in instalments;
- (f) the settlement of the Debts of UPPSD's Related Parties (Confirmed) in the total sum of RMB741,989,908.38 as recognised by the UPPSD Bankruptcy Administrator in one lump sum payment of RMB50 million; and

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## LETTER FROM THE BOARD

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- (g) upon the completion of UPPSD Bankruptcy Reorganisation, UPPSD shall forfeit its all other receivables, prepayments and other debts due by the Group to UPPSD, which amounted to RMB156,943,268.36 based on the liquidation audit on UPPSD commissioned by the UPPSD Bankruptcy Administrator.

On 29 July 2021, the UPPSD Bankruptcy Administrator convened the second creditors' meeting, at which the UPPSD Bankruptcy Reorganisation plan was duly approved by the creditors and shareholders of UPPSD. On 31 July 2021, the UPPSD Bankruptcy Administrator applied to the PRC Court for its approval of the UPPSD Bankruptcy Reorganisation plan, and the PRC Court approved the same with effect from 1 August 2021. As such and commencing from 1 August 2021, the UPPSD Bankruptcy Reorganisation plan started to be implemented by parties in accordance with the plan approved by the creditors and shareholders of UPPSD and the PRC Court.

The completion of the implementation of the UPPSD Bankruptcy Reorganisation plan took place on 29 September 2021 and was confirmed by the PRC Court on 11 October 2021 upon satisfaction of the following three conditions:

- (a) in respect of payment of claims in cash to each creditor of UPPSD, the payment of their respective First Instalment Payment has been paid in full as reserve to the bank account of the UPPSD Bankruptcy Administrator;
- (b) issuance of the "Confirmation of Remaining Debts Plan" by UPPSD to the creditors confirming that UPPSD shall pay the remaining debts/claims in accordance with the date and amounts specified in the UPPSD Bankruptcy Reorganisation plan to such creditors; and
- (c) the reorganisation expenses and debts in the amount of approximately RMB21 million have been paid off in compliance with the UPPSD Bankruptcy Reorganisation plan.

As required by and as part of the UPPSD Bankruptcy Reorganisation plan, Shandong Bairun was to provide a loan of not less than RMB250 million required for the implementation of the UPPSD Bankruptcy Reorganisation plan to SPV2 (to be used to settle the First Instalment Payment to be paid to the creditors of UPPSD and the reorganisation expenses of the UPPSD Bankruptcy Administrator in the total amount of approximately RMB170 million and to be used in the daily business operations of UPPSD of not less than RMB80 million), within ten business days after fulfilment of all of the following Payment Conditions:

- (a) approval of the UPPSD Bankruptcy Reorganisation plan by the PRC Court;
- (b) execution of the Facility Agreement in respect of the loan of not less than RMB250 million by Shandong Bairun, SPV2, UPPSD, the Company and the JPLs;
- (c) completion of the mortgage registration in favour of Shandong Bairun as the first priority mortgagor over assets (including land and buildings) of UPPSD;

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## LETTER FROM THE BOARD

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- (d) completion of the share charge registration in favour of Shandong Bairun or the Investor (as the case may be) in respect of 100% shareholding in each of UPPSD, SPV1 and SPV2;
- (e) implementation of supervision of the bank account and chops of UPPSD, SPV1 and SPV2 pursuant to the Restructuring Agreement; and
- (f) revocation of the mortgage right of SJ (China) over assets of UPPSD by the UPPSD Bankruptcy Administrator.

As of the Latest Practicable Date, all of the above Payment Conditions have been satisfied.

On 28 September 2021, Shandong Bairun provided the loan of RMB250 million in accordance with the UPPSD Bankruptcy Reorganisation plan and the Facility Agreement pursuant to which RMB170 million has been released to UPPSD Bankruptcy Administrator (at the instruction of SPV2) for settlement of the First Instalment Payments and the reorganisation expenses and debts; and RMB80 million has been released to UPPSD (also at the instruction of SPV2) for daily business operations of UPPSD.

The loan of RMB250 million provided by Shandong Bairun carries a fixed interest at the 1-year loan prime rate announced by the National Interbank Funding Centre and will become repayable upon the earlier of (i) the first anniversary of the date of releasing the loan to SPV2; or (ii) any material breach of the Facility Agreement by a party which is not remedied to the satisfaction of the non-breaching party. The loan is secured by charge over the shareholding of each of SPV1, SPV2 and UPPSD and the assets of UPPSD created in favour of the Investor or Shandong Bairun by way of a first priority fixed charge, which shall be discharged upon completion of the Group Reorganisation. As of 30 September 2021, the aggregated net asset value of SPV1, SPV2 and UPPSD amounted to approximately HK\$461 million. The aggregate value of the relevant assets of UPPSD subject to the fixed charge was approximately RMB603 million.

On 29 September 2021, after (i) receiving the fund of RMB170 million provided by Shandong Bairun at the instruction of SPV2; and (ii) issuing the “Confirmation of Remaining Debts Plan” to the creditors of UPPSD, the UPPSD Bankruptcy Administrator applied to the PRC Court for confirmation of completion of implementation of the UPPSD Bankruptcy Reorganisation plan and verdict on the termination of the UPPSD’s bankruptcy reorganisation proceedings. On 11 October 2021, the PRC Court issued a verdict confirming the completion of implementation of the UPPSD Bankruptcy Reorganisation plan, and ordered the termination of UPPSD’s Bankruptcy Reorganisation proceedings with effect from 11 October 2021.

After receiving the funds, the UPPSD Bankruptcy Administrator has been allocating the First Instalment Payments to the creditors. As at the Latest Practicable Date, the allotment process has been substantially completed including the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation, except for two creditors whose payment has not been made due to the creditors’ reasons. The remaining funds of approximately RMB13.8 million in the bank account of the UPPSD Bankruptcy Administrator after deducting the

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First Instalment Payments and the reorganisation expenses have been transferred to the reorganised bank account of UPPSD to be used as its working capital. As at the Latest Practicable Date, the RMB80 million fund has been fully utilised to cover the working capital needs of UPPSD.

### 7. THE RESUMPTION

As at the Latest Practicable Date, the Stock Exchange has imposed on the Company the following conditions to the Resumption:

- (a) address all audit issues raised by the former auditors of the Company;
- (b) conduct an appropriate independent investigation into the audit issues, announce the findings and take appropriate remedial actions;
- (c) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (d) have the Petition (or winding-up order, if made) against the Company withdrawn or dismissed;
- (e) announce all material information for the Shareholders and investors to appraise the Company's position;
- (f) demonstrate its compliance with Rule 13.24 of the Listing Rules;
- (g) conduct an independent internal control review and demonstrate adequate internal control systems being put in place to meet the obligations under the Listing Rules; and
- (h) re-comply with Rules 3.05, 3.10(1), 3.21 and 3.25 of the Listing Rules.

If the Company fails to satisfy all the above conditions to the Resumption imposed by the Stock Exchange by 1 January 2022, the Listing Division of the Stock Exchange may recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing status. The Company is taking various steps to satisfy the Resumption conditions, including:

- (i) appointment of the Auditors as the auditor of the Company for the audit of the Company's financial statements for the years ended 31 March 2020 and 31 March 2021;
- (ii) appointment of Grant Thornton to conduct an independent investigation on the audit issues and announcement by the Company on 25 May 2021 of the findings of Grant Thornton and remedial actions taken;
- (iii) appointment of Pan-China as its internal control consultant to conduct a comprehensive review of the internal control systems and procedures of the Group and to make recommendations accordingly;

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## LETTER FROM THE BOARD

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- (iv) sanction of the Listco Scheme by the Hong Kong Court on 28 October 2021; and
- (v) submission of the Resumption Proposal to the Stock Exchange on 20 September 2021.

As of the Latest Practicable Date, the status of fulfillment of each conditions to the Resumption are set out below:

- (a) The former auditors of the Company, PricewaterhouseCoopers, have raised the following audit issues in relation to the Group's consolidated financial statements for the year ended 31 March 2020:
  - (i) transactions and balances with two suppliers which are connected persons at subsidiary level of the Company by virtue of their holding company's interest as a substantial shareholder in UPPSD (prior to the completion of the implementation of the Bankruptcy Reorganisation of UPPSD);
  - (ii) classification of accounts payable of HK\$694,567,000 in aggregate due to the above-mentioned suppliers as non-current liabilities as at 31 March 2020 and execution of two purported deferred payment agreements;
  - (iii) the adjustment of prepayments amounting to HK\$570,558,000 which were initially recorded as repayment of accounts payable to the above-mentioned suppliers;
  - (iv) the unreconciled differences in balances between Group companies in the aggregate amount of HK\$580,643,000 which were adjusted to account for as addition to property, plant and equipment and other receivables of HK\$25,801,000 and HK\$554,842,000, respectively; and
  - (v) the likely non-fulfillment of a financial covenant ratio requirement of the Group.

The Company has taken a series of remedial actions in order to improve the internal control of the Group, and address and mitigate the re-occurrence of such audit issues raised by the former auditors of the Company, including, among others, (i) cessation of operation and winding down and/or liquidation of paper trading business; (ii) appointment of Pan China as internal control consultant to strengthen the internal control of the Group; and (iii) resignation of the then executive directors and CFO at the relevant time and appointment of qualified professional as new Directors and CFO to monitor, oversee and monitor the management and operation of the Company.

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## LETTER FROM THE BOARD

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- (b) the Company has published an announcement on 25 May 2021 on the audit issues and relevant findings by Grant Thornton and remedial actions taken. On 24 December 2021, the Company made a submission to the Stock Exchange addressing its comment letter dated 11 June 2021 in respect of the investigation findings of the audit issues;
- (c) the Company has published the audited financial results for the years ended 31 March 2020 and 31 March 2021, and interim results for the six-month periods ended 30 September 2020 and 30 September 2021 on 15 December 2021;
- (d) the Auditors expected that the audit qualifications as stated in the section head “THE AUDIT QUALIFICATIONS” of this letter from the Board will be carried forward for the year ending 31 March 2022 in relation to (i) the gain/loss from the deconsolidation of subsidiaries of the Group during the year ending 31 March 2022 (by way of liquidation/deregistration/transfer of the subsidiaries to the SchemeCo pursuant to the terms of the Listco Scheme); (ii) profit and loss of the Excluded Subsidiaries which would be deconsolidated from the Group in the year ending 31 March 2022; and (iii) the opening balances of paper trading segment, property development and investment segment and others segment as at 31 March 2021. The Auditors agreed that in the absence of the unforeseen circumstances, the consolidated financial statements of the Company for the year ending 31 March 2023 will not carry the audit modifications;
- (e) on 10 December 2021, the Bermuda Court ordered the withdrawal of the Petition and the discharge of the JPLs conditional upon the Listco Scheme becoming effective;
- (f) since the suspension of the trading in Shares, the Company has published various announcements to keep its Shareholders and potential investors informed of the situation and development of the Company. The Company will continue to disclose other material information of the Group with an aim to keep its shareholders and potential investors informed of the situation and development of the Group in due course;
- (g) the Company submitted the Resumption Proposal to the Stock Exchange on 20 September 2021, which was supplemented by a supplemental submission dated 17 November 2021. The Company further made a submission on 8 December 2021 to address comments from the Stock Exchange regarding the supplemental submission. The Company will keep the Shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate;
- (h) the Company published an announcement on 13 December 2021 regarding the results of the internal control review conducted by Pan China, in which a summary of the key findings and remedial measures implemented by the Company were provided; and

## LETTER FROM THE BOARD

- (i) the Company will comply with Rules 3.05, 3.10(1), 3.21 and 3.25 of the Listing Rules upon the appointment of the relevant proposed Directors.

To facilitate the Resumption, each of the Company, the JPLs and the Investor undertakes and agrees to use its best endeavours to procure the satisfaction of all the above conditions to the Resumption imposed by the Stock Exchange as soon as reasonably practicable, including but not limited to:

- (a) providing information reasonably requested by the JPLs and the Company to only facilitate the formulation of the Resumption Proposal;
- (b) informing the Investor of the status of the Resumption to the extent permitted by the law, and providing documents and information reasonably requested by the Investor relating to the Resumption; and
- (c) cooperating fully and reasonably to do such further acts and things and executing any further document that may be necessary or desirable to give full effect to the Restructuring.

### THE GROUP AND ITS SHAREHOLDING STRUCTURE

The tables below set out the shareholding structure of the Company under different scenarios before and after Closing:

#### Scenario 1: Assuming none of the Preference Shares is converted

	As at the Latest Practicable Date		Upon completion of the Capital Reorganisation		Immediately after the Closing (after issue of the Subscription Shares, Creditors' Shares and Placement Shares)		Immediately after the Closing (after issue of the Subscription Shares, Creditors' Shares and Placement Shares); and assuming all Creditors' Shares have been placed under the Placing Out	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Investor	—	—	—	—	990,220,583	70.66	990,220,583	70.66
Mr. Lee Seng Jin (Note 1)	816,992,935	71.60	81,699,293	71.60	81,699,293	5.83	81,699,293	5.83
Ms. Sham Yee Lan, Peggy (Note 2)	33,425,112	2.93	3,342,511	2.93	3,342,511	0.24	3,342,511	0.24
Mr. Chow Wing Yuen (Note 3)	1,080,000	0.09	108,000	0.09	108,000	0.01	108,000	0.01
SchemeCo (Note 4)	—	—	—	—	240,482,142	17.16	—	—
Places and/or the Placing Agent for								
Placement (as the underwriter) (Note 5)	—	—	—	—	56,584,032	4.04	56,584,032	4.04
Places under the Placing Out (Note 6)	—	—	—	—	—	—	240,482,142	17.16
Public Shareholders (Note 4, 5, 6)	289,577,780	25.38	28,957,778	25.38	28,957,778	2.06	28,957,778	2.06
<b>Total</b>	<b>1,141,075,827</b>	<b>100.00</b>	<b>114,107,582</b>	<b>100.00</b>	<b>1,401,394,339</b>	<b>100.00</b>	<b>1,401,394,339</b>	<b>100.00</b>

Notes:

- As at the Latest Practicable Date, Mr. Lee Seng Jin, a former Director, is beneficially interested in 816,992,935 Shares, of which 688,533,247 Shares are held by Quinselle Holdings Limited, a company wholly-owned by Mr. Lee Seng Jin and 128,459,688 Shares are held by Mr. Lee Seng Jin directly. Mr. Lee Seng Jin is also beneficially interested in 132,064,935 Preference Shares which are also held

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by Quinselle Holdings Limited. Neither Mr. Lee Seng Jin nor Quinselle Holdings Limited has the intention to convert the Preference Shares any time before Closing. Immediately after the Closing, Mr. Lee Seng Jin and Quinselle Holdings Limited will become public Shareholders.

2. Ms. Sham Yee Lan, Peggy is the spouse of Mr. Lee Seng Jin and a former Director. Immediately after the Closing, Ms. Sham Yee Lan, Peggy will become a public Shareholder.
3. Mr. Chow Wing Yuen is a former Director. Immediately after the Closing, Mr. Chow Wing Yuen will become a public Shareholder.
4. DaiEi is a public Shareholder (which holds 20,000,000 Shares, representing approximately 1.8% of the issued ordinary share capital of the Company as at the Latest Practicable Date, based on the records available to the Company) and a creditor of the Company. As DaiEi's entitlement of Creditors' Shares has not been fixed as at the Latest Practicable Date, its entitlement of Creditors' Shares is included in the shareholding of the SchemeCo for illustration purpose.
5. Each of the Placees and the Placing Agent for Placement under the Placement (as the underwriter) will be a public Shareholder.
6. Each of the Placees under the Placing Out will be a public Shareholder.

### Scenario 2: Assuming all of the Preference Shares are converted

	As at the Latest Practicable Date		Upon completion of the Capital Reorganisation		Immediately after the Closing (after issue of the Subscription Shares, Creditors' Shares and Placement Shares)		Immediately after the Closing (after issue of the Subscription Shares, Creditors' Shares and Placement Shares); and assuming conversion of all Preference Shares		Immediately after the Closing (after issue of the Subscription Shares, Creditors' Shares and Placement Shares); assuming conversion of all Preference Shares and all Creditors' Shares have been placed under the Placing Out	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Investor	—	—	—	—	990,220,583	70.66	990,220,583	70.00	990,220,583	70.00
Mr. Lee Seng Jin (Note 1)	816,992,935	71.60	81,699,293	71.60	81,699,293	5.83	94,905,786	6.71	94,905,786	6.71
Ms. Sham Yee Lan, Peggy (Note 2)	33,425,112	2.93	3,342,511	2.93	3,342,511	0.24	3,342,511	0.24	3,342,511	0.24
Mr. Chow Wing Yuen (Note 3)	1,080,000	0.09	108,000	0.09	108,000	0.01	108,000	0.01	108,000	0.01
SchemeCo (Note 4)	—	—	—	—	240,482,142	17.16	240,482,142	17.00	—	—
Placees and/or the Placing Agent for Placement (as the underwriter) Placement (Note 5)	—	—	—	—	56,584,032	4.04	56,584,032	4.00	56,584,032	4.00
Placees under the Placing Out	—	—	—	—	—	—	—	—	240,482,142	17.00
Public Shareholders (Note 4, 5, 6)	289,577,780	25.38	28,957,778	25.38	28,957,778	2.06	28,957,778	2.04	28,957,778	2.04
<b>Total</b>	<b>1,141,075,827</b>	<b>100.00</b>	<b>114,107,582</b>	<b>100.00</b>	<b>1,401,394,339</b>	<b>100.00</b>	<b>1,414,600,832</b>	<b>100.00</b>	<b>1,414,600,832</b>	<b>100.00</b>

#### Notes:

1. As at the Latest Practicable Date, Mr. Lee Seng Jin, a former Director, is beneficially interested in 816,992,935 Shares, of which 688,533,247 Shares are held by Quinselle Holdings Limited, a company wholly-owned by Mr. Lee Seng Jin and 128,459,688 Shares are held by Mr. Lee Seng Jin directly. Mr. Lee Seng Jin is also beneficially interested in 132,064,935 Preference Shares which are also held by Quinselle Holdings Limited. Neither Mr. Lee Seng Jin nor Quinselle Holdings Limited has the intention to convert the Preference Shares any time before Closing. Immediately after the Closing, Mr. Lee Seng Jin and Quinselle Holdings Limited will become public Shareholders.

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2. Ms. Sham Yee Lan, Peggy is the spouse of Mr. Lee Seng Jin and a former Director. Immediately after the Closing, Ms. Sham Yee Lan, Peggy will become a public Shareholder.
3. Mr. Chow Wing Yuen is a former Director. Immediately after the Closing, Mr. Chow Wing Yuen will become a public Shareholder.
4. DaiEi is a public Shareholder (which holds 20,000,000 Shares, representing approximately 1.8% of the issued ordinary share capital of the Company as at the Latest Practicable Date, based on the records available to the Company) and a creditor of the Company. As DaiEi's entitlement of Creditors' Shares has not been fixed as at the Latest Practicable Date, its entitlement of Creditors' Shares is included in the shareholding of the SchemeCo for illustration purpose.
5. Each of the Placees and the Placing Agent for Placement (as the underwriter) under the Placement will be a public Shareholder.
6. Each of the Placees under the Placing Out will be a public Shareholder.

Save for disclosed above, no current or former Director from the preceding twelve months is interested in any Shares of the Company. None of Mr. Lee Seng Jin, Ms. Sham Yee Lan, Peggy or Mr. Chow Wing Yuen were involved in any negotiation and/or discussion of the Restructuring.

### INFORMATION ABOUT THE COMPANY AND THE GROUP

#### **The Company and the Group**

The Company was incorporated on 10 July 1995 in Bermuda and was registered as a non-Hong Kong Company in Hong Kong on 27 December 1995. The Shares were listed on the Main Board of the Stock Exchange (Stock Code: 731.HK) on 1 December 1995.

The Company is an investment holding company. The Group is/was principally engaged in (i) paper manufacturing business; (ii) paper trading business including sale of paper and cardboard, office supplies and consumables and supplies for paper manufacturing; (iii) FMCG business; (iv) PID business; and (v) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. The Group's operations are/were mainly based in Hong Kong and PRC. Upon completion of the Group Reorganisation, the Retained Group will principally engage in the paper manufacturing business.

The Group's key subsidiaries included, amongst others, SMHK, UPPSD and SJ (China). Please see the section headed "3. The Group Reorganisation" for a group structure of the Group before the Group Reorganisation.

#### **Current Financial Positions of the Company and the Group**

Based on the audited consolidated financial statements of the Group, (i) for the year ended 31 March 2020, the Group recorded turnover of approximately HK\$5,737 million and recorded a net loss of approximately HK\$543 million; and (ii) as at 31 March 2020, the

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## LETTER FROM THE BOARD

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Group reported a net assets position of approximately HK\$1,500 million, with total assets of approximately HK\$5,859 million and total liabilities of approximately HK\$4,359 million.

Based on the audited consolidated financial statements of the Group, as of 31 March 2021, (i) the book value of the Group's total assets is around HK\$1,097 million, and the book value of its total liabilities is around HK\$3,275 million, resulting in net liabilities of around HK\$2,178 million; and (ii) the book value of the Company's total assets is around HK\$250 million and the book value of its total liabilities is around HK\$2,303 million, resulting in net liabilities of around HK\$2,053 million. Thus, both the Group and the Company are balance sheet insolvent.

The liabilities of the Company mainly comprise of claims of unsecured creditors arising from guarantees granted by the Company to four of its subsidiaries, namely, (i) SMHK (including a syndicated loan where the Company and certain of its subsidiaries acted as guarantors); (ii) SG Finance Ltd (involving a club loan where the Company and certain of its subsidiaries acted as guarantors); (iii) UPPI; and (iv) UPPSD.

Following the suspension of trading of the Shares on 2 July 2020, a number of banks had withdrawn the banking facilities previously provided to the Group and demanded repayment to outstanding balance. Coupled with actions of creditors including application to courts to freeze bank accounts of the Group, each of the Group's business segments faced severe working capital challenges, affecting their ability to make new purchases and to maintain the usual operations.

Given the liquidity shortage and financial situation of the Group, it is crucial to obtain new funding to repay indebtedness of the Group so as to continue the existing paper manufacturing business and to restore the financial strength of the Group.

### **Current Operational Positions of the Company and the Group**

As set out above, the former business structure of the Group can be divided into five business segments, namely (i) paper manufacturing business; (ii) paper trading business; (iii) FMCG business; (iv) PID business; and (v) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. Brief descriptions of the five segments are outlined below:

#### ***(a) Paper Manufacturing***

The Group operated a paper manufacturing plant (i.e. UPPSD) in Shandong, PRC which was acquired from a third party in 2008.

Pursuant to the approved UPPSD Bankruptcy Reorganisation plan, former shareholders of UPPSD, being an indirectly wholly-owned subsidiary of the Company holding 10% interest in UPPSD and an indirectly owned subsidiary of the Company as to 77.7% (the remaining 22.3% interests owned by KPP) holding 90% interest in UPPSD, will no longer hold any interest in UPPSD and SPV2 shall become the sole registered

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## LETTER FROM THE BOARD

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shareholder of UPPSD prior to completion of the implementation of the UPPSD Bankruptcy Reorganisation. As at the Latest Practicable Date, KPP did not hold any interest in UPPSD or the Group, and SPV2 became the sole registered shareholder of UPPSD.

As a result of the suspension of banking facilities to UPPSD, UPPSD defaulted repayment on various debts, following which creditors of UPPSD had taken various legal actions including applying to the local court to freeze bank accounts of UPPSD. As a result, production of the manufacturing facility of UPPSD was suspended in the third quarter of 2020, and various banks had withdrawn facilities made available to UPPSD.

In order to help UPPSD revive its operation, provide and ring-fence its working capital for its ongoing manufacturing activities as well as to preserve the operational value of UPPSD, and to assist UPPSD in keeping the jobs of over 900 employees, Xiamen C&D Paper and Shandong Herun (which is an affiliate of Zhejiang Xinshengda), with the support from the local government, agreed to jointly operate the assets of UPPSD on an entrusted basis while they were still in the early stage of considering participating in the restructuring of the Group.

Please refer to the section headed “Background of the Restructuring” of this circular for the details on the entering into of the Entrusted Operation Agreement in relation to the entrusted operation for UPPSD, and the UPPSD Bankruptcy Reorganisation.

### ***(b) Paper Trading***

The Group sold paper and cardboard, office supplies and consumables, as well as supplies for paper manufacturing. As stated in the Company’s annual report for the financial year ended 31 March 2019, the Group had an extensive paper trading business network primarily in Hong Kong and the PRC, generating approximately HK\$4.5 billion turnover annually.

Due to the gradual withdrawal of banking facilities by numerous banks following the suspension of trading of Shares and the subsequent appointment of the JPLs, the Group experienced increased pressure on its working capital, affecting its ability to make new purchases and to maintain usual operations of its paper trading business. The paper trading business in both Hong Kong and the PRC had been wound down since August 2020 and September 2020 respectively, with minimal staff being retained to assist in realization of inventories and collection of accounts receivable and identify potential buyers for warehouses and offices in the PRC.

#### *Paper Trading business in Hong Kong*

Meanwhile, since mid-July 2020, some creditors had issued demand letters to SMHK (being the principal subsidiary of the Company engaging in paper trading business in Hong Kong and the principal borrower of the Group) requesting for repayment and/or claiming retention of title over unpaid goods. Some of these creditors had also commenced proceedings in the Hong Kong Court against SMHK since mid-July 2020.

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With a view to protect the interests of all unsecured creditors of SMHK under the *pari passu* principle, as well as to maintain the prospect of a holistic approach to the restructuring of the Group's indebtedness, on 14 August 2020, the shareholder of SMHK resolved to place SMHK into creditors' voluntary liquidation as SMHK could not, by reason of its liabilities, continue its business. Mr. Lai Kar Yan (Derek) and Mr. Ho Kwok Leung Glen were appointed as the SMHK Liquidators.

Operations of SMHK ceased upon the commencement of the liquidation of SMHK on 14 August 2020. The Group had continued the winding down of operations of the remaining subsidiaries of the Group engaged in the paper trading business in Hong Kong, namely BL and SHPCL.

Following the completion of the winding down of the operations of BL and SHPCL, the shareholder of BL and SHPCL, after making enquiries with the management of BL and SHPCL on the affairs and financial positions of the respective companies, resolved to put BL and SHPCL into creditors' voluntary liquidation on 30 June 2021, as each of BL and SHPCL could not, by reasons of their liabilities, continue their businesses. Mr. Lai Kar Yan (Derek), Mr. Ho Kwok Leung Glen and Mr. Kam Chung Hang (Forrest) were appointed as liquidators of BL and SHPCL.

### *Paper Trading business in the PRC*

The Group carried on paper trading business in the PRC through the PRC subsidiaries of SMHK and the PRC subsidiaries of SMC.

As disclosed above, since September 2020, the Group had been winding down the operation of the PRC subsidiaries engaging in the paper trading business, upon completion of which, the shareholder of SMC, after making enquiries with the management of SMC on the affairs and financial positions of SMC, resolved to put SMC into creditors' voluntary liquidation on 30 June 2021, as SMC could not, by reasons of its liabilities, continue its business. Mr. Lai Kar Yan (Derek), Mr. Ho Kwok Leung Glen and Mr. Kam Chung Hang (Forrest) were appointed as the SMC Liquidators.

SMC and KGL, through their PRC subsidiaries, held warehouses in the PRC for the paper trading business. Following the winding down of the paper trading business in the PRC, the shareholder of KGL, after making enquiries with the management of KGL on its affairs and financial positions, resolved to put KGL into creditors' voluntary liquidation on 30 June 2021, as KGL could not, by reasons of its liabilities, continue its business. Mr. Lai Kar Yan (Derek), Mr. Ho Kwok Leung Glen and Mr. Kam Chung Hang (Forrest) were appointed as liquidators of KGL.

### *Paper Trading business in the other region*

On 28 January 2021, the Group disposed of its entire equity interests in Samson Paper (M) Sdn. Bhd., which is engaged in paper trading business in Malaysia, to a third party, who is not a Shareholder.

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As at the Latest Practicable Date, all subsidiaries in the paper trading segment of the Group have either been deconsolidated (by way of liquidation or disposal) or ceased business and shall be transferred to the SchemeCo and deconsolidated from the Group upon the Closing.

*(c) FMCG business*

The Group was also engaged in FMCG business, selling consumer goods (including chilled and frozen meat, liquor, fresh fruit and vegetables, health and beauty products, household products and baby and pet care products) via a chain of retail stores and online platforms. The primary market of FMCG business was in Hong Kong, with a minimal wholesale business in PRC.

On 19 October 2020, the Group entered into a sale and purchase agreement with a third party, which is not a Shareholder, to sell the FMCG business to such third party by way of share deal at a consideration of HK\$1 and the intercompany receivables due to SMHK being assigned to such third party with a consideration of HK\$8 million. The disposal of FMCG business was completed on 4 January 2021 and had been carved out from the Group thereafter.

*(d) PID business*

The Group developed industrial properties in PRC for investment and for sale through SJ (China) and the major development was Nantong Industrial Park, where phase 1 has been completed, phase 2 is under construction and phase 3 is held for future development. SJ (China) had also been acting as the headquarter of the Group's paper-related operations and was responsible for procuring raw materials for other Group companies in the PRC.

Reference is made to the announcement made by the Company dated 23 September 2021, the shareholder of SJ Limited, being the parent company of SJ (China), resolved that SJ Limited could not operate as a going concern, has insufficient funds to meet its debts as they fall due, and that it should be wound up.

Accordingly, on 16 September 2021, a qualifying resolution was duly passed by the shareholder of SJ Limited to wind up SJ Limited by way of an insolvent liquidation, and Messrs. Ryan Jarvis of Deloitte Ltd., 3rd Floor Waters Edge Building, Meridian Plaza, Wickhams Cay 2, P.O. Box 3083, Road Town, Tortola, British Virgin Islands VG1110; Messrs. Lai Kar Yan (Derek) and Kam Chung Hang (Forrest), both of Deloitte Touche Tohmatsu, 35th Floor, One Pacific Place, 88 Queensway, Hong Kong, were appointed as Joint and Several Liquidators of SJ Limited.

Following the commencement of the winding-up, the financial results and position of SJ Limited and its subsidiaries (including SJ (China)) were deconsolidated from those of the Group.

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### *(e) Other businesses*

Apart from paper manufacturing, paper trading, FMCG business and PID business, the Group was also engaged in other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services.

The Group has a marine engineering business in Singapore, which comprised Hypex International and its other subsidiaries. Its principal activities were carrying on business as contractors, consultants and specialists in marine engineering and other maritime services, including repairing of ships, tankers and other ocean-going vessels.

The management of the Group considered that Hypex Group was unable to sustain its operations on its own and should be disposed of. The said management located a party who expressed interest in the Hypex Group and was willing to provide financial support to Hypex Group. After various rounds of negotiations, on 25 September 2020, the Group entered into a sale and purchase agreement to dispose of all of the issued shares of Hypex International and discharge of debts due by the Hypex Group to SMHK, for a total consideration of HK\$500,001. The disposal of Hypex Group was completed on 30 September 2020.

### **The business of the Retained Group upon the completion of the Restructuring**

Upon the completion of the Restructuring, the business of the Retained Group will comprise the existing business of UPPSD, which primarily engages in the manufacture and sale of paper products. Set out below is the business and business model of UPPSD:

#### *(a) Products*

UPPSD specializes in the manufacture of coated duplex board and kraft linerboard. Coated duplex board is generally used as packing material for small boxes that require high printability and water resistance such as consumer electronic products, cosmetics and other consumer merchandise. Kraft linerboard is a main material layer of boxes used to package consumer products varying in sizes, such as electrical appliances, furniture, personal care and chemical products. Both coated duplex board and kraft linerboard are primarily manufactured from recovered paper, UPPSD is able to meet its customers' demand for environmentally-friendly products.

#### *(b) Sales and Marketing*

As at the Latest Practicable Date, UPPSD's products are mainly sold in the PRC market. It has a solid customer base in China, the majority of whom are the Wholesale Customers and the End-users. The Wholesale Customers are paper distributors which would sell the paper products to printing companies and packaging companies, while the End-users are small to mid-sized printing and packaging manufactures which use UPPSD's products to produce packaging for various industries such as food and beverage, electronic and textiles.

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## LETTER FROM THE BOARD

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UPPSD operates its sales network from its production sites in Zaozhuang City, Shandong Province and sells most of its products to customers directly through its sales team. This sales model has enabled UPPSD to maintain a close relationship with the Wholesale Customers and End-users, as well as reduce the cost of marketing intermediaries.

UPPSD is committed to maintain a high level of customer satisfaction and attract new customers through sales and marketing activities including (i) continuous promotion of its products in national industry websites such as Sublime China Information ([www.sci99.com](http://www.sci99.com)) and UMPaper ([www.umpaper.com](http://www.umpaper.com)); (ii) market research; (iii) arrange offline marketing trips for potential customers to enable them to have a better understanding of UPPSD and its production process thereby encourage them to use UPPSD's products and/or buy from UPPSD directly.

### *(c) Procurement*

The principal raw materials used for the production of UPPSD products are (a) recovered paper; (b) kraft pulp; and (c) other auxiliary materials.

Recovered paper makes up for the largest portion of UPPSD's raw materials. UPPSD sources its recovered paper domestically which enables UPPSD to secure a stable source of raw materials to facilitate stable production. Kraft pulp are purchased in PRC. UPPSD uses various kinds of chemicals and agents in its production process, including starch and retention agent. UPPSD purchases other auxiliary materials in the PRC.

### *(d) Production*

UPPSD implements an integrated production process through the operation of three production lines, namely PM2 and PM3 producing coated duplex board and PM5 producing kraft linerboard, coupled with other supporting facilities that are responsible for the provision of power, steam, waste water treatment and logistical support to UPPSD.

As at the Latest Practicable Date, the three production lines has an aggregated annual estimated production capacity of approximately 460,000 tons (including 210,000 tons of coated duplex board and 250,000 tons of kraft linerboards). UPPSD's paper manufacturing facility is based in Zaozhuang City, Shandong Province, the PRC and employs around 800 staff.

The production process for UPPSD's products begins with the collection of raw materials, which primarily include recovered paper. Recovered paper will first undergo pulp processing to become liquid fiber, which then will pass through the separation process to remove contaminants before being processed into paper sheets. Depending on the grade of the product, the paper sheets may or may not be processed for coating before being compressed and wound into reels and cut and/or packaged into finished products for delivery.

UPPSD continues to implement environmentally responsible practices and maintains high environmental standards in its custom designed and integrated production process, from sourcing of raw materials and treatment of wastes to recycling by-products and

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## LETTER FROM THE BOARD

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processing surplus products. In October 2020, UPPSD was accredited with ISO14001 Environmental Management System certification in relation to its environmental management system.

### *(e) Quality Control*

UPPSD maintains consistent product quality through implementing a comprehensive quality control system covering every stage of the production process, including (i) assessment of suppliers; (ii) sample testing of raw materials; (iii) control over usage of raw materials; (iv) computerized and monitored production process; and (v) quality testing on all finished products. In October 2020, the quality management system of UPPSD was accredited with ISO9001 Quality Management System.

Every stage of the production process is logically integrated and controlled by a centralized distribution control system and is monitored by UPPSD's engineers. This ensures high levels of production safety, increased throughput and efficiency while minimizing human errors.

UPPSD's paper manufacturing machines are also regularly inspected and maintained by its engineers to ensure proper working condition. Production reports are generated by UPPSD's production department on a daily basis in respect of each production line, which set out various production data including production volume, and amount of raw material used, results of quality control.

### *(f) Properties*

In relation to UPPSD's production site in Zaozhuang City, UPPSD has been granted land use rights from the Zaozhuang municipal government over twelve pieces of land comprising a total area of approximately 589,234 square meters.

### *(g) Competitive Strength*

#### *(i) Enhanced operational efficiency*

UPPSD is able to enhance its operational efficiencies primarily through the following:

- (A) *economies of scale* — UPPSD's multiple production lines provide economies of scale and allow UPPSD to manufacture a variety of products simultaneously while minimizing equipment shutdowns required for product and specification changes;
- (B) *integrated production facilities* — UPPSD has an integrated operation and supporting infrastructure, including its power and steam generation plant in Zaozhuang City; and

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## LETTER FROM THE BOARD

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(C) *production know-how* — UPPSD has been able to accommodate an increased variety of recovered paper grades while maintaining its product quality and performance. Its production know-how also provides UPPSD with increased flexibility in sourcing raw materials at competitive prices.

*(ii) Fast-growing demand for UPPSD's products*

UPPSD's coated duplex board and kraft linerboard are aimed at the packaging needs of consumer product manufacturers across a broad range of industries, including wine, tobacco, food, apparel, medicine, electronic products, office supplies, furniture and personal care products.

The consumer market in China is one of the fastest growing industries in China driven primarily by its rapid economic growth. As the consumer market in China continues to develop and mature, superior product packaging will become more critical in the consumer product selection process. As such, the Directors considers that the demand for the UPPSD's coated duplex board will increase as these higher grade products are able to support higher printability with better colour effect.

*(iii) Environmental-friendly operations and products*

Environmental protection has become increasingly important in both China and globally. The major UPPSD products, namely coated duplex board and kraft linerboard, are manufactured mainly from recovered paper, which minimizes negative impacts on the environment without sacrificing the quality and price of such products. The Directors believe that with the increase in regulations and consumer awareness for environmental protection, the demand for UPPSD's environmental friendly products will increase as well.

*(iv) Research and development*

UPPSD is committed to focus its research and development efforts on improving manufacturing efficiency and developing new and innovative products to improve the performance of UPPSD's products.

***(h) Experienced management***

UPPSD's key management members, who are long serving staff, have extensive experience in the paper industry. Their industrial and management experiences will be an invaluable asset to the Group and key element to the Group's success and future advancement.

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## LETTER FROM THE BOARD

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Set out below the biographical details of the key management of UPPSD:

- |  |  |
|--|--|
| General Manager,<br>LAM Jacky (林德賢)                                    | Mr. LAM Jacky, aged 56, has over 30 years of working experience in paper and pulp manufacturing industry. He has been working with the Group since 2007. Mr. LAM graduated from University of Technology Sydney in 1987.   |
| Finance Manager,<br>WANG Guanyue<br>(王觀岳)                              | Mr. WANG Guanyue, aged 43, has around 20 years of working experience in paper and pulp manufacturing industry. He has been working with UPPSD since 2019. Mr. WANG graduated from Shandong University in 2001. He worked with Shandong Huatai Paper Inc.* (山東華泰紙業股份有限公司) since 2001 and left as deputy general manager of finance.   |
| Deputy Manager of<br>production lines —<br>PM2 & PM3, CAO<br>Shen (曹申) | Mr. CAO Shen, aged 51, has around 30 years of working experience in paper and pulp manufacturing industry. He has been working with UPPSD since 2008. Mr. CAO graduated from Shandong Light Manufacturing College* (山東省輕工業學院) in 1994. He joined Shandong Huazhong Paper Co., Ltd.* (山東華眾紙業有限公司) as deputy general manager in 1994, joined Shandong Huacai Paper Co., Ltd.* (山東華彩紙業有限公司) as technology team lead in 2003, joined Taihe Paper Co., Ltd.* (泰和紙業有限公司) as production department manager in 2004, joined Jinhui Paper Co., Ltd.* (錦輝紙業有限公司) as production line manager in 2006, and joined Jining Qiushi Paper Co., Ltd.* (濟寧求是紙業有限公司) as project manager before he joined the Group. |
| Deputy Manager of<br>production line —<br>PM5, SHAO Xiao<br>(邵校)       | SHAO Xiao, aged 37, has over 15 years of working experience in paper and pulp manufacturing industry. He has been working with UPPSD since 2013. Mr. SHAO graduated from Bengbu University* (蚌埠高等專科學校) in 2005, majoring in paper and pulp manufacturing. He joined Maanshan Shanying Paper Co., Ltd.* (馬鞍山山鷹紙業股份有限公司) as an intern in 2005, joined Jiangsu Lee & Man* (江蘇理文造紙有限公司) in 2006, and joined Shouguangluli Paper Co., Ltd.* (魯麗紙業有限公司) as technical manager in 2012.  |
| Sales Manager, LIU<br>Yuanyuan (劉瑗瑗)                                   | Ms. LIU Yuanyuan, aged 45, has been working with UPPSD since 2008. Ms. LIU joined Shandong Huazhong Paper Co., Ltd. (山東華眾紙業有限公司)* as sales personnel in 1998 and graduated from Party School of Shandong Provincial Committee (山東省委黨校)* in 2007.   |

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## LETTER FROM THE BOARD

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Production Manager,  
SHAO Chenguang  
(邵晨光)

Mr. SHAO Chenguang, aged 55, has over 30 years of working experience in paper and pulp manufacturing industry. He has been working with UPPSD since 2012. Mr. SHAO graduated from Shandong Zaozhuang School of Economy\* (山東省棗莊市經濟幹校) in 1986. He joined Shandong Huazhong Paper Co., Ltd.\* (山東華眾紙業有限公司) in 1987, joined Zhejiang Nanhe Paper Co., Ltd.\* (浙江南河紙業) as technology team lead in 2003, joined Hebei Yuanda\* (河北遠大) as project engineer and joined Fujian Yunxiao Changlong Paper Co., Ltd.\* (福建雲霄長隆造紙有限公司) as deputy general manager of production in 2009.

Security Manager, SUN  
Wei (孫煒)

Mr. SUN Wei, aged 42, has over 20 year of working experience in human resource and operation area. He has been working with UPPSD since 2008. Mr. SUN graduated from China University of Petroleum. He joined Shandong Huazhong Paper Co., Ltd.\* (山東華眾紙業有限公司) in 1999 and worked as human resource and operation manager.

Deputy Manager of  
Procurement, YIN  
Guoxian (殷國憲)

Mr. YIN Guoxian, aged 43, has been working with UPPSD since 2009. Mr. YIN graduated from Jinan School of Petrochemicals and Economy\* (濟南石化經濟學校) in 1999. He joined Shandong Huazhong Paper Co., Ltd.\* (山東華眾紙業有限公司) as electric engineer in 1997 and joined Zaozhuang Yuanlong Paper Co., Ltd.\* (棗莊隆源紙業有限公司) as sales manager in 2004.

### PROSPECT AND FUTURE PLAN

The Company will continue to reinforce its position in improving major businesses and expanding its business scale based on the following business strategies of the Group. The Group intends to further streamline its operations to further enhance its profit margin and improve quality assurance.

Based on the existing resources available to the Group and on the assumption that the Placement and the Subscription will be successfully implemented, the Group has formulated the following business plan to develop the existing business portfolio of the Group.

#### **(a) Maintaining a stable core management team with deep industry expertise**

The Group intends to maintain a stable core management team with deep industry expertise, comprising of high caliber talents in the areas of corporate governance, production, technical know-how, sales and marketing, finance, law and other areas that will strengthen the Group's corporate governance and promote its business development. Please see the section headed "The business of the Retained Group upon the completion of the Restructuring — Experienced management" for details of the experience, expertise and qualifications of the core management team of the Group.

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## LETTER FROM THE BOARD

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### **(b) Strengthen production management and increase operational efficiency**

The Group plans to implement the following arrangements to increase the production capacity at UPPSD's manufacturing facility:

- (i) strictly operate manufacturing machinery in accordance with the standard parameters to ensure such machinery is operated in the best condition possible as means to increase production and efficiency;
- (ii) optimize raw material ratio to reduce production cost;
- (iii) strictly implement scientific production scheduling, inventory control, water conservation and emission reduction measures; and
- (iv) fully utilize production capacity of machinery through expanding customer base and satisfying customers' demand.

### **(c) Enhance supply chain management**

UPPSD intends to further strengthen its suppliers and customer management, proactively source new suppliers and customers, enhance cooperation with existing suppliers and customers, stabilize raw material supply channels and enhance quality control of raw materials purchased. In facing the complexity of domestic and international economic trends, the Group plans to continue to explore the optimization of raw material mix and search for cost-effective raw materials to ensure adequate supply.

## **INTENTIONS OF THE INVESTOR REGARDING THE COMPANY**

Upon Closing, the Excluded Subsidiaries which were principally engaged in (a) paper trading, (b) FMCG business and (c) PID business; and (d) other business including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services will be transferred to the SchemeCo to repay the debts owed to the Scheme Creditors, and cease to be the subsidiaries or associates of the Company. It is the intention of the Investor that the Retained Group will continue and focus on the existing paper manufacturing business. Nevertheless, following the Closing, the Investor intends that the Company will continue to seek new business opportunities to improve its profitability and business prospects, consolidate or streamline its existing business, enhance its future business development, and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise.

As at the Latest Practicable Date, save as in connection with the intention of the Investor regarding the Retained Group as set out above, the Investor has no plan to discontinue the employment of any existing employees of the Group, introduce any major changes to the existing principal business of the Group, redeploy the fixed assets of the Company, nor inject any assets or business into the Group. The Investor has not identified any targets for development of other businesses nor conducted any discussions or negotiations for the acquisition of any new business or asset into or disposal of any existing business or asset of the Group as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### TAKEOVERS CODE IMPLICATIONS

#### **The Whitewash Waiver**

As at the date of the Restructuring Agreement and the Latest Practicable Date, the Concert Party Group does not hold any Shares. Upon the allotment and issue of the Subscription Shares, Placement Shares and the Creditors' Shares at Closing and assuming that none of the Preference Shares have been converted, the Investor will be interested in a maximum number of 990,220,583 New Shares, representing approximately 70.66% of the then issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares. As such, the Investor would be required to make an unconditional mandatory general offer for all the issued Shares (not already owned or agreed to be acquired by the Concert Party Group) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

In this regard, the Investor has made an application to the Executive for the Whitewash Waiver to relieve them from their obligation to make a mandatory general offer as a result of the acquisition of Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the Whitewash Waiver and the transactions contemplated under the Restructuring Agreement being separately approved by at least 75% and more than 50% of the votes cast by the Independent Shareholders at the SGM by way of poll, respectively, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. As the shareholding of the Investor will exceed 50% of the issued share capital of the Company following the completion of the Restructuring, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

The Whitewash Waiver may or may not be granted by the Executive. Completion of the Restructuring is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Restructuring will not proceed. The Company notes that the Executive may not grant the Whitewash Waiver if the Restructuring does not comply with applicable rules and regulations. The Company is not aware of any matters that will result in the Restructuring not being compliant with any applicable rules and regulations. Nevertheless, the implementation of UPPSD Bankruptcy Reorganisation plan has completed independently from the other transactions contemplated under the Restructuring Agreement with effect from 11 October 2021.

#### **Special Deals**

##### ***Special Deal 1***

Based on the records available to the Company, as at the Latest Practicable Date, DaiEi holds 20,000,000 Shares, representing approximately 1.8% of the issued ordinary share capital of the Company. Based on the records available to the Company, DaiEi is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Listco Scheme taking effect, DaiEi may also be a Scheme Creditor.

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## LETTER FROM THE BOARD

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If the claim of DaiEi is admitted by the Scheme Administrators, DaiEi will be entitled to the Payment to DaiEi under the Listco Scheme.

As the Payment to DaiEi under the Listco Scheme is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code.

### *Special Deal II*

During the UPPSD Bankruptcy Reorganisation proceeding, DaiEi as a creditor of UPPSD, claimed an amount of RMB382,621.59 owed by UPPSD to it. As a creditor with unsecured claim of UPPSD, accordance to the terms of the UPPSD Bankruptcy Reorganisation plan, DaiEi is entitled to receive RMB200,000 and 20% of the balance of the claimed amount in cash as its First Instalment Payment, and will receive four subsequent instalments, each representing 20% of the balance of the claimed amount on or before the first, second, third and fourth anniversary of the date payment of its First Instalment Payment. Accordingly, DaiEi is entitled to receive a total of RMB236,524 as the First Instalment Payment, and four subsequent instalments of RMB36,524 each totalling RMB146,096 in accordance with the aforementioned payment schedule.

DaiEi's entitlement for the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation originated from its status as a creditor of UPPSD with unsecured claim of UPPSD pursuant to a sale and purchase contract dated 19 March 2020 and entered into by and between DaiEi as seller and UPPSD as buyer for purchase of certain amount of recycled liner board in rolls for a total purchase price of US\$60,000 (which approximately equals to RMB382,621.59), which has been verified and confirmed by the UPPSD Bankruptcy Administrator during the UPPSD Bankruptcy Reorganisation proceeding.

As at the Latest Practicable Date, the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation has been made.

As the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code.

### *Special Deal III*

DaiEi is a creditor of the Company. If admitted as a Scheme Creditor of the Company by the Scheme Administrators, DaiEi has a right to (i) receive the Creditors' Shares in their own names or through CCASS (in proportion to its claim adjudicated by the Scheme Administrators) or (ii) receive cash to be realised from the disposal of the relevant Creditors' Shares held by the SchemeCo for the benefits of DaiEi. In the latter case, the SchemeCo has the right exercisable by the Scheme Administrators in their absolute discretion to sell the relevant Creditors' Shares on DaiEi's behalf, either (i) in the open market at the market price, or (ii) by instructing the Placing Agent for Placing Out one or more times during the Placing Out Period to place such number of the Creditors' Shares to the Placees and, given the Price Protection will be in place, realize such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares pursuant to the Placing Agreement for Placing Out.

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## LETTER FROM THE BOARD

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As the Price Protection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, is not extended to all the other Shareholders, such Price Protection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, constitutes a special deal under Rule 25 of the Takeovers Code.

As such, each of Special Deal I, Special Deal II and Special Deal III requires consent by the Executive. An application has been made to the Executive for the consent to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating in its opinion to the Independent Shareholders that the respective terms of the Special Deals are fair and reasonable; and (ii) approval of the Special Deals by the Independent Shareholders at the SGM, in which DaiEi, any creditors of the Company, any creditors under the UPPSD Bankruptcy Reorganisation and their respective associates and parties acting in concert with any of them, who is a Shareholder will be required to abstain from voting in respect of the resolutions to approve the Special Deals.

Save as disclosed above, as at the Latest Practicable Date, none of the creditors of the Company or creditors of UPPSD and their respective ultimate beneficial owners is a Shareholder.

Unless consents to the Special Deals by the Executive are obtained and the resolutions relating to the Special Deals have been approved by the Independent Shareholders, the Restructuring and all the underlying transactions will not proceed, other than the implementation of the UPPSD Bankruptcy Reorganisation plan which has been completed.

### **TERMINATION OF THE RESTRUCTURING AGREEMENT**

Either party may terminate the Restructuring Agreement on written notice to the other parties in any of the following events:

- (a) failure to comply with any provision of the Restructuring Agreement in any material manner by one party and such non-compliance is not remedied by the breaching party within ten Business Days upon receipt of the written notice from the non-breaching party;
- (b) the Stock Exchange having determined that the Company is not suitable for continuing listing and the Company's appeal has not been successful within six months from the date when the Stock Exchange informs the Company in writing that it is not suitable for continuing listing;
- (c) the Hong Kong Court or the Bermuda Court rejecting the Company's application to convene creditors' meeting to consider and vote on the Listco Scheme;
- (d) the Hong Kong Court or the Bermuda Court not granting approval for the Listco Scheme;

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## LETTER FROM THE BOARD

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- (e) the Listco Scheme not being passed by the requisite majority of the Independent Shareholders at the SGM or not being passed by the requisite majority of the creditors of the Company at the creditors' meeting;
- (f) the required resolutions not being passed by the requisite majority of the Independent Shareholders at the SGM; or
- (g) either of the state asset supervision authority, the outbound direct investment authority and the anti-monopoly supervision authority in the PRC rejecting the approval of the transactions contemplated under the Restructuring Agreement,

provided that where the abovementioned determination, rejection or resolutions has become final and non-appealable, provided that before exercising the right of termination, the parties shall conduct bona fide discussions to seek alternative methods to satisfy the conditions precedent and take necessary steps to implement the Restructuring and the Resumption to the extent that is reasonable.

Unless the parties otherwise agree, the Restructuring Agreement shall be terminated automatically if any of the conditions precedent to the Closing as disclosed in the Section headed "Conditions Precedent to the Closing" of this circular have not been satisfied (or not been waived) upon the expiry of the Long Stop Date.

The Company and the JPLs will not, and will procure the subsidiaries of the Company not to, solicit, initiate, consider, encourage or accept any discussion or negotiation with any other persons in respect of the Restructuring.

### PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY

Amendments to the Bye-Laws of the Company will be proposed at the SGM to reflect the changes in the Company's share capital as a result of the Capital Reorganisation. Details of the proposed amendments to the Bye-Laws made by the Company are set out as follows:

Currently in force	Proposed to be amended as
4. (A) The authorised share capital of the Company at the date this Bye-Law becomes effective is HK\$160,000,000.00 divided into 1,456,913,987 shares of HK\$0.10 each (the "Ordinary Shares") and 143,086,013 convertible non-voting preference shares of HK\$0.10 each in the capital of the Company (the "CP Shares").	4. (A) The authorised share capital of the Company at the date this Bye-Law becomes effective is HK\$114,308,601.30 divided into 2,000,000,000 shares of HK\$0.05 each (the "Ordinary Shares"), and 143,086,013 convertible non-voting preference shares of HK\$0.10 each in the capital of the Company (the "CP Shares").

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## LETTER FROM THE BOARD

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The legal advisers to the Company as to Hong Kong laws have confirmed that the proposed amendments to the Bye-Laws of the Company comply with the requirements of the Listing Rules and the legal advisers to the Company as to Bermuda laws have confirmed that the proposed amendments to the Bye-Laws of the Company do not violate the applicable laws of Bermuda. The Company confirms that there is nothing unusual about the amendments to the Bye-Laws of the Company.

The proposed amendments to the Bye-Laws of the Company are subject to the approval of the Shareholders by way of a special resolution at the SGM.

### **PROPOSED CHANGE IN BOARD LOT SIZE**

Subject to the Capital Reorganisation becoming effective, the Board also proposes to change the board lot size for trading in the Company's shares from 2,000 Shares to 20,000 New Shares.

Such change in the board lot size will increase the value of each board lot of New Shares as well as reduce transaction and registration costs incurred by the Shareholders and investors of the Company. Accordingly, the Board is of the view that the change in board lot size is in the interest of the Company and the Shareholders as a whole.

### **APPLICATION FOR LISTING**

The Company will apply to the Listing Committee for the listing of, and permission to deal in the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares. Dealings in the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares will be subject to the payment of stamp duty in Hong Kong (where applicable). Subject to the granting of listing of, and permission to deal in, the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares on the Stock Exchange, the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares on the Stock Exchange or such other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No expenses are estimated to be directly attributable to the issue of, and the application for the listing of the New Shares, the Subscription Shares, the Placement Shares and Creditors' Shares as the costs arising therefrom are covered by the Restructuring Expenses whereas the Restructuring Expenses shall be reimbursed and settled by the Investor upon Closing. All Restructuring Expenses shall be borne by the Investor and the Company is not liable to the Restructuring Expenses.

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## LETTER FROM THE BOARD

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### REASONS FOR ENTERING INTO THE RESTRUCTURING AGREEMENT

As at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million, comprising of claims arising from guarantees granted by the Company to bank creditors and a supplier in relation to certain indebtedness of the subsidiaries of the Company, and amounts due to the Group companies. Given the liquidity shortage and financial situation of the Group, it is crucial to obtain new funding to resolve indebtedness of the Group so as to continue the existing paper manufacturing business and to restore the financial strength of the Group.

As mentioned in the section headed “INFORMATION OF THE INVESTOR”, Xiamen C&D Paper has an annual sales volume of over 9 million tons of paper products and pulps and a sales network comprising over 5,000 customers in the PRC and overseas; it is also the largest wood pulp supply chain distributor in the PRC which has annual sales volume of the domestic and import wood pulp of over 4 million tonnes. Zhejiang Xinshengda group has tapped into the paper manufacturing and distribution industry in the southeast Asia since 2018 and established its own production arm for both recycled paper pulp and industrial packaging paper in Malaysia. In view of the financial capability and industry experience and resources of Xiamen C&D Paper and Zhejiang Xinshengda, the Board and the JPLs consider that the entering into the Restructuring Agreement with the Investor will facilitate a holistic restructuring to (i) resolve the indebtedness of the Group; (ii) revive and grow the existing paper manufacturing business of the Group through leveraging the industry experience and resources of Xiamen C&D Paper and Zhejiang Xinshengda; and (iii) satisfy the Resumption conditions imposed on the Company by the Stock Exchange.

Having considered the factors above, the Board (including the member of the Independent Board Committee) and the JPLs consider that the terms of the Restructuring Agreement are on normal commercial terms that are fair and reasonable and the entering into of the Restructuring Agreement and the equity fund raising via the relevant transactions contemplated under the Restructuring Agreement, including the Subscription, the Capital Reorganisation, the Placement, and the issuance of Creditors’ Shares is in the interests of the Company and the Shareholders as a whole.

In respect of the Capital Reorganisation, as the main purpose is to (i) apply the credit arising from the Capital Reduction and the Share Premium Cancellation to set off the accumulated losses of the Company, and (ii) facilitate the allotment and issue of the Subscription Shares, Placement Shares and the Creditors’ Shares, the Board (including the member of the Independent Board Committee) and the JPLs are of the view that the expenses to be incurred in relation to the Capital Reorganisation will not have a material adverse effect on the financial position of the Group, and the Capital Reorganisation will not alter the underlying assets, business operations and management of the Company or the proportionate interests of the Shareholders in the Company.

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## LETTER FROM THE BOARD

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In respect of the Placement, the Board considers that it would be in the interest of the Company to conduct equity fund raising via the Placement to fund the implementation of the Listco Scheme in accordance with the terms as approved by Scheme Creditors and the Hong Kong Court, which will facilitate the Group in discharging the debts of the Company under the Listco Scheme. In addition, the Placement would enlarge the shareholder base of the Company.

The amount of proceeds of the Placement to be applied to the Listco Scheme and the determination of the Placement Share Price were commercial decisions determined by reference to (i) the prevalent unstable financial market conditions; (ii) the Group's recent financial performance and its financial position as at 31 March 2020; (iii) the prevailing market price of the Shares prior to and including the Last Trading Day; (iv) the business prospects of the Group given the current market conditions; (v) the commercial viability of the Listco Scheme; (vi) its current cash flow needs; and (vii) the belief of the Board that certain amount of funds could be raised by way of the Placement with certainty and be applied to the Listco Scheme.

### **FINANCIAL EFFECTS OF THE RESTRUCTURING**

#### **Assets and liabilities**

Based on the unaudited pro forma consolidated statement of financial position of the Group as at 30 September 2021 as set out in Appendix II to this circular, if the Resumption had taken place on 30 September 2021, the total assets of the Group as at 30 September 2021 will be reduced from approximately HK\$2,075 million to approximately HK\$1,666 million whereas the total liabilities will be reduced from approximately HK\$4,044 million to approximately HK\$1,210 million. On the other hand, the financial position of the Group would be reversed from having net liabilities of approximately HK\$1,969 million to net assets of approximately HK\$456 million. Such improvement is primarily attributable to the proceeds to be raised from the Placement and the Subscription pursuant to the Restructuring, the effect of the full and final settlement of the indebtedness of the Group with the Scheme Creditors under the Listco Scheme and deconsolidation of the Excluded Subsidiaries upon the Listco Scheme taking effect.

#### **Earnings**

Based on the unaudited pro forma consolidated statement of profit or loss of the Group as at 30 September 2021 as set out in Appendix II to this circular, assuming completion of the Restructuring, the pro forma net profit of the Retained Group for the six months ended 30 September 2021 would be approximately HK\$2,436 million. The increase in net profit was primarily attributable to the effect of the full and final settlement of the indebtedness of the Group with the Scheme Creditors under the Listco Scheme and deconsolidation of the Excluded Subsidiaries upon the Listco Scheme taking effect.

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## LETTER FROM THE BOARD

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### THE AUDIT QUALIFICATIONS

Set out below the basis for the disclaimers of opinion/conclusion issued by the Auditors on the consolidated financial statements of the Company for the two years ended 31 March 2020 and 2021, and actions taken/to be taken by the Company to address each of the basis for the disclaimers of opinion/conclusion:

Disclaimer of opinion/conclusion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
1 Material uncertainties relating to going concern basis	<p>The Group's current liabilities exceeded its current assets. The Group had failed to comply with financial covenant of those loan facilities in respect of the Group's current ratio as stipulated in the loan agreements to which the Company was a guarantor. This non-compliance constituted an event of default under the loan agreements.</p> <p>These may cast significant doubt about the Group's ability to continue as a going concern.</p>	<ul style="list-style-type: none"><li>• The year ended 31 March 2020</li><li>• The year ended 31 March 2021</li></ul>	<p>Matters relating to uncertainties relating to going concern will be resolved upon the absence of events or conditions which may cast significant doubt about the going concern assumption of the Group and the occurrence of the following events, including but not limited to 1) the Group's maintenance of a net asset and net current asset position and sufficient working capital; and 2) the withdrawal of the Petition.</p> <p>1) Net Assets Position</p> <p>Upon Closing, the Group shall consist of the Company, SPV1, SPV2 and UPPSD only.</p> <p>As at the Latest Practicable Date, the UPPSD Bankruptcy Reorganisation has been completed and UPPSD has returned to solvency.</p> <p>The Company will restructure its debt by way of the Listco Scheme. All claims against the Company as at the date on which the Listco Scheme becoming effective (i.e. upon Closing), will be fully and finally discharged by virtue of the implementation of the Listco Scheme. Thereafter, the Group will remain in a net assets position.</p> <p>Based on the working capital forecast prepared by the Company on the assumption that the proposed Restructuring will be implemented successfully, the Retained Group will have sufficient working capital for its requirement for at least the next 12 months from the date of completion of the Restructuring.</p> <p>2) Withdrawal of the Petition</p> <p>On 10 December 2021, the Bermuda Court granted an order to withdraw the Petition and to discharge the JPLs. The order shall take effect upon the Listco Scheme becoming effective and the Listco Scheme shall take effect no earlier than the date of Closing.</p>

## LETTER FROM THE BOARD

Disclaimer of opinion/conclusion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
2	<p>Insufficient accounting records of certain subsidiaries of the Group in paper trading segment</p> <p>The SMHK Liquidators were appointed to SMHK pursuant to written resolutions of the sole shareholder of SMHK dated 14 August 2020. The De-consolidated Group A were deconsolidated from the consolidated financial statements of the Group with effect from 15 August 2020.</p> <p>The SMC Liquidators were appointed to SMC, an indirect wholly-owned subsidiary of the Company, pursuant to the written resolutions of the sole shareholder of SMC dated 30 June 2021. The De-consolidated Group B were deconsolidated from the consolidated financial statements of the Group with effect from 1 July 2021.</p> <p>Basic business records that were left behind by the former management and accounting departments of the De-consolidated Group A and the De-consolidated Group B and retained by the SMHK Liquidators, SMC Liquidators and the Directors of the Company were not found to be of a sufficient level for the Auditors' audit purposes. The Specific Records are required.</p> <p>The SMHK Liquidators, the SMC Liquidators and the Directors of the Company consider that it was impracticable to provide the Specific Records to the Auditors for carrying audit work given that:</p> <p>(i) the former management and the majority of the accounting staff responsible for keeping the books and records of the De-consolidated Group A and the De-consolidated Group B have departed from the Group;</p> <p>(ii) the SMHK Liquidators, the SMC Liquidators and the Directors of the Company could only use their best endeavor to preserve the books and records that were left behind by the former management and the accounting department and were unable to determine whether the Specific Records were complete in the first place; and</p> <p>(iii) the SMHK Liquidators, the SMC Liquidators and the Directors of the Company had no other access to the Specific Records despite having taken all reasonable steps and have used their best endeavor to locate such Specific Records.</p> <p>Unable to obtain sufficient appropriate audit evidence for certain subsidiaries of the Group in paper trading segment that were disposed of or deregistered subsequent to the reporting date.</p>	<ul style="list-style-type: none"> <li>• The year ended 31 March 2020</li> <li>• The year ended 31 March 2021</li> </ul>	<p>Matters relating to the disclaimer of opinion in relation to insufficient accounting records of the paper trading segment have been addressed by:</p> <ul style="list-style-type: none"> <li>— the deconsolidation of the financial results and position of the De-consolidated Group A and the De-consolidated Group B from those of the Group with effect from 15 August 2020 and 1 July 2021 respectively following the commencement of insolvent liquidation of SMHK and SMC.</li> <li>— the deconsolidation of the financial results and position of certain subsidiaries in the segment that were disposed or deregistered subsequent to the reporting date from those of the Group following the completion of the disposal or deregistration.</li> </ul> <p>Based on the discussion with the Auditors, in view of the above deconsolidation recognized in the year ended 31 March 2021 and the year ended 31 March 2022, it is expected that</p> <ul style="list-style-type: none"> <li>— disclaimer of opinion relating to the accounting treatment in relation to the deconsolidation will be issued on the consolidated income statement of the Group for the year ended 31 March 2022.</li> <li>— the consolidated financial statements of the Group for the year ended 31 March 2023 will not carry any audit modifications in this regard.</li> </ul>

## LETTER FROM THE BOARD

Disclaimer of opinion/conclusion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
3	<p>Unavailability of accounting records of certain subsidiaries of the Group in Property Development and Investment segment</p> <p>The Seng Jin Liquidators were appointed to SJ Limited, pursuant to written resolutions of the sole shareholder of SJ Limited dated 16 September 2021. The De-consolidated Group C were deconsolidated from the consolidated financial statements of the Group with effect from 17 September 2021.</p> <p>Due to the non-cooperation of the local management and staff of the De-consolidated Group C, neither the Company nor the Auditors were able to access the sufficient books and records of the De-consolidated Group C for purpose of the audit.</p> <p>Other than the De-consolidated Group C, the Auditors were unable to obtain sufficient audit evidence for certain subsidiaries in the property development and investment segment that were under the De-consolidated Group A.</p>	<ul style="list-style-type: none"> <li>• The year ended 31 March 2020</li> <li>• The year ended 31 March 2021</li> </ul>	<p>Matters relating to the disclaimer of opinion in relation to unavailability of accounting records of the Property Development and Investment segment have been addressed by:</p> <ul style="list-style-type: none"> <li>— the deconsolidation of the financial results and position of the De-consolidated Group C from those of the Group on 17 September 2021 following the commencement of insolvent liquidation of SJ Limited.</li> <li>— the deconsolidation of the financial results and position of the De-consolidated Group A from those of the Group with effect from 15 August 2020 following the commencement of insolvent liquidation of SMHK.</li> </ul> <p>Based on the discussion with the Auditors, in view of the above deconsolidation recognized in the year ended 31 March 2021 and the year ended 31 March 2022, it is expected that</p> <ul style="list-style-type: none"> <li>— disclaimer of opinion relating to the accounting treatment in relation to the deconsolidation will be issued on the consolidated income statement of the Group for the year ended 31 March 2022.</li> <li>— the consolidated financial statements of the Group for the year ended 31 March 2023 will not carry any audit modifications.</li> </ul>
4	<p>Unavailability of accounting records of certain subsidiaries of the Group in others segment</p> <p>The De-consolidated Group D were disposed subsequent to the reporting dates of 31 March 2020 and 31 March 2021.</p> <p>Books and records of the De-consolidated Group D available to the Group at the material time and which were retained by the Group, were not found to be of a sufficient level for audit purposes.</p> <p>Other than Hypex Group, the Auditors were unable to obtain sufficient audit evidence for certain subsidiaries in others segment that were under the De-consolidated Group A and the De-consolidated Group B or disposed of or deregistered subsequent to the reporting dates as the books and records were not at a sufficient level for audit purposes.</p>	<ul style="list-style-type: none"> <li>• The year ended 31 March 2020</li> <li>• The year ended 31 March 2021</li> </ul>	<p>Matters relating to the disclaimer of opinion in relation to unavailability of accounting records of certain subsidiaries of the Group in Others segment have been addressed by the deconsolidation of the financial results and position of the De-consolidated Group A, the De-consolidated Group B, the De-consolidated Group D and subsidiaries of the Group in the other segments that were disposed or deregistered, from those of the Group.</p> <p>Based on the discussion with the Auditors, in view of the above deconsolidation recognized in the year ended 31 March 2021 and the year ended 31 March 2022, it is expected that</p> <ul style="list-style-type: none"> <li>— disclaimer of opinion relating to the accounting treatment in relation to the deconsolidation will be issued on the consolidated income statement of the Group for the year ended 31 March 2022.</li> <li>— the consolidated financial statements of the Group for the year ended 31 March 2023 will not carry any audit modifications in this regard.</li> </ul>

## LETTER FROM THE BOARD

Disclaimer of opinion/conclusion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
5	<p>Unreconciled differences in balances between group companies</p> <p>Unreconciled balances between intra-group balances were recorded as consolidation adjustment by the former management as additions to Property, Plant and Equipment, addition to other receivables and reduction of other payable as at 31 March 2020. The reduction of other payables was subsequently adjusted to other receivables by the former management.</p> <p>The Directors of the Company consider that such adjustments were not supported by sufficient documents and explanations and reviewed the unreconciled differences which had arose over a number of years. The Directors of the Company identified net payments to a number of parties outside the Group without sufficient reasonable explanations recorded. The Directors of the Company have been taking steps to recover the monies paid but consider the amounts to be irrecoverable.</p> <p>In the absence of sufficient supporting documents and explanation available to the current management, the property, plant and equipment of approximately HK\$25 million and other receivables of approximately HK\$55 million have been fully impaired during the year.</p> <p>Auditors were unable to obtain sufficient and appropriate audit evidence about the nature of the payments and whether the balance of property, plant and equipment and other receivables before impairment were properly stated and whether the related impairment losses were properly recorded.</p>	<ul style="list-style-type: none"> <li>• The year ended 31 March 2020</li> </ul>	<p>Matters relating to disclaimer of unreconciled differences in balances between group companies have been resolved upon impairment of the property, plant and equipment and other receivables during the year ended 31 March 2020.</p> <p>This audit qualification has been removed in the year ended 31 March 2021.</p>
6	<p>Opening balances and the comparative information</p> <p>Unable to obtain sufficient appropriate audit evidence over the account balances as at 31 March 2019 and 31 March 2020 and the transactions and notes to financial statements of the Group, due to the absence of sufficient supporting documents and more detailed explanation in relation to the accounting records in connection to the opening balances and comparative information in respect of the paper trading segment, property development and investment segment and others segment of the Group that were made available to the Directors of the Company from the former management of the Group.</p> <p>In relation to the impairment of property, plant and equipment and other receivables as set out in item 5 above, the Auditors were unable to satisfy themselves about the nature of the payments and whether the balances of property, plant and equipment and other receivables before impairment were properly recorded and that the impairment losses were properly recognised.</p>	<ul style="list-style-type: none"> <li>• The year ended 31 March 2020</li> <li>• The year ended 31 March 2021</li> </ul>	<p>Upon Closing which is expected to take place during the year ended 31 March 2022, with the exception of SPV1, SPV2 and UPPSD, the Excluded Subsidiaries will be transferred to the SchemeCo and their financial results and position will be deconsolidated from the Group. Only the paper manufacturing segment of the Group (i.e. SPV1, SPV2 and UPPSD) will be retained in the consolidated financial statements of the Group.</p> <p>Therefore, the matters relating to the disclaimer of opinion in relation to the opening balance and the comparative information, which relate to the paper trading segment, property development and investment segment and others segment, will be resolved following the deconsolidation of the aforesaid segments as explained in items 1-4 above and the ultimate transfer of the Excluded Subsidiaries to the SchemeCo upon Closing.</p> <p>Based on the discussion with the Auditors, it is expected that, upon Closing by the end of the year ended 31 March 2022,</p> <ul style="list-style-type: none"> <li>— an unqualified opinion will be issued on the consolidated statement of financial position of the Retained Group as at 31 March 2022, with a disclaimer of opinion on the consolidated income statement of the Retained Group for the year ended 31 March 2022 for the accounting treatment in relation to the deconsolidation.</li> <li>— Unqualified opinion will be issued for the consolidated financial statements for the year ended 31 March 2023.</li> </ul>

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## LETTER FROM THE BOARD

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The Auditors expected that the audit qualifications above will be carried forward for the year ending 31 March 2022 in relation to (i) the gain/loss from the deconsolidation of subsidiaries of the Group during the year ending 31 March 2022 (by way of liquidation/deregistration/transfer of the subsidiaries to the SchemeCo pursuant to the terms of the Listco Scheme); (ii) profit and loss of the Excluded Subsidiaries which would be deconsolidated from the Group in the year ending 31 March 2022; and (iii) the opening balances of paper trading segment, property development and investment segment and others segment as at 31 March 2021.

The Auditors agreed that in the absence of the unforeseen circumstances, the consolidated financial statements of the Company for the year ending 31 March 2023 will not carry the audit modifications.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, the Board would like to draw the attention of the Independent Shareholders to the audit modifications as summarized above. Nonetheless, the Auditors have agreed with the aforesaid description in relation to the rectification of the audit qualifications. Having considered the above, upon Closing and in the absence of any unforeseen circumstances, the Board considers that the above audit qualifications should not materially affect the Group's financial results and operation.

### INFORMATION OF THE INVESTOR

The Investor is a company incorporated in British Virgin Islands with limited liability, indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively.

Xiamen C&D Paper is a limited liability company incorporated in the PRC. Xiamen C&D Paper is a wholly-owned subsidiary of Xiamen C&D Inc., a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600153). As at the Latest Practicable Date, the largest shareholder of Xiamen C&D Inc. is Xiamen C&D Corporation, which holds approximately 47.4% of the issued share capital of Xiamen C&D Inc. (being the only shareholder of Xiamen C&D Inc. interested in 10% or more of its equity interests) and is in turn wholly owned by Xiamen SASAC. Xiamen C&D Paper is principally engaged in sourcing and supplying of forest products such as paper, pulp, wood chips and household paper products. Xiamen C&D Paper has an annual sales volume of over 9 million tons of paper products and pulps and a sales network comprising over 5,000 customers in the PRC and overseas. In addition, Xiamen C&D Paper is one of the largest wood pulp supply chain distributors in the PRC which has annual sales volume of the domestic and import wood pulp of over 4 million tonnes.

Zhejiang Xinshengda is a limited liability company incorporated in the PRC. Zhejiang Xinshengda is owned by Mr. Li Shengfeng (李勝峰) and Ms. Lu Chengying (陸成英) as to 99% and 1%. Both Mr. Li Shengfeng and Ms. Lu Chengying are citizens of the PRC. The principal businesses of Zhejiang Xinshengda include manufacturing and trading of paper, chemical products, plastic products and hardware products. It has tapped into the paper manufacturing and distribution industry in the southeast Asia since 2018 and established its own production arm for both recycled paper pulp and industrial packaging paper in Malaysia. Mr. Li Shengfeng is the founder of Zhejiang Xinshengda. He has over 16 years of

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## LETTER FROM THE BOARD

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management experience in the manufacturing and trading industry. Ms. Lu Chengying is also a founding member of Zhejiang Xinshengda. She was responsible for the financial management of Zhejiang Xinshengda until her retirement in 2019.

Shandong Bairun is a limited liability company incorporated in the PRC, which is owned by Xiamen C&D Paper and Shandong Herun as to 55% and 45%. Shandong Bairun is principally engaged in trading of general goods such as paper and pulp.

### USE OF PROCEEDS FROM THE PLACEMENT AND THE SUBSCRIPTION

The aggregate gross proceeds from the Placement and the Subscription of approximately HK\$126.7 million will be applied as follows:

- (i) HK\$91.7 million will be used for discharging the debts of the Company under the Listco Scheme; and
- (ii) HK\$35 million will be used to pay the Restructuring Expenses in accordance with the Restructuring Agreement.

### FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company did not carry out any right issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months immediately prior to the Latest Practicable Date.

### IMPLICATIONS UNDER THE LISTING RULES

#### Specific Mandates

As the Subscription Shares, the Placement Shares and the Creditors' Shares will not be issued under the authority of currently available general mandate granted by the Shareholders to the Directors, and instead will be allotted and issued under the Specific Mandates to be obtained at the SGM, the allotment and issue of such Shares is subject to the Independent Shareholders' approval.

#### Possible Non-Exempted Continuing Connected Transactions

After Closing, the Investor will become the majority Shareholder and a connected person of the Company. As the Investor is indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively, Xiamen C&D Paper or any subsidiary of Xiamen C&D Paper will become an associate of the Investor, and therefore, a connected person of the Company.

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## LETTER FROM THE BOARD

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Accordingly, it is expected that after Closing, the Paperboard Sales Continuing Connected Transactions contemplated under the Paperboard Sales Framework Agreement will constitute non-exempted continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Please see the section headed "Principal Terms of the Paperboard Sales Framework Agreement" below for the principal terms of the Paperboard Sales Framework Agreement.

### **Exceptional circumstances for Rule 7.27B**

Pursuant to Rule 7.27B, a listed issuer may not undertake a rights issue, open offer or specific mandate placings that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. The Subscription, the Placement and the issue of the Creditors' Shares in aggregate will result in a theoretical dilution effect of approximately 88.55%, which is over the 25% threshold as specified under Rule 7.27B. However, the Company is of the view that there are exceptional circumstances for the Company having considered the adverse financial position of the Company.

As disclosed in the paragraph headed "Background of the Restructuring" in this letter, (a) the Company filed the Petition, together with an application for the appointment of joint and several provisional liquidators to the Company on a "light touch" basis for restructuring purposes; and (b) as at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million, comprising of claims arising from guarantees granted by the Company to bank creditors and a supplier in relation to the indebtedness of the subsidiaries of the Company, and amounts due to Group companies.

Given the above, the Group is currently insolvent and in financial difficulties. Therefore, the Subscription, the allotment and issue of the Creditors' Shares and the Placement (if any), which form part of the rescue proposal of the Company, are essential to the Resumption, and the Company considers (a) there are exceptional circumstances for the Company to undertake the Subscription, the Placement and the Listco Schemes (if any) which in aggregate would result in a theoretical dilution effect of over 25%; and (b) the Subscription Price, the Placement Share Price and the Issue Price of the Creditors' Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole. As disclosed in the section headed "The Subscription", the Subscription Price (which is equivalent to the Placement Share Price and the Issue Price of the Creditors' Shares) was determined after arm's length negotiations between the Company and the Investor having considered factors including the suspension of trading of the Shares, the prevailing market conditions, the financial position and prospects of the business operation of the Retained Group.

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## LETTER FROM THE BOARD

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### BOARD COMPOSITION OF THE COMPANY AND PROPOSED APPOINTMENT OF PROPOSED DIRECTORS

As at the Latest Practicable Date, the Board comprised two executive Directors, namely Mr. Choi Wai Hong, Clifford and Mr. Lau Wai Leung, Alfred, and one independent non-executive Directors, namely Mr. Leung Vincent Gar-gene. Mr. Lau Wai Leung, Alfred and Mr. Leung Vincent Gar-gene intend to resign as the Directors with effect from the date of Resumption.

The Investor intends to appoint Mr. Shi Yaofeng, Mr. Huang Tiansheng and Ms. Shi Chenye as executive Directors, appoint Mr. Cheng Dongfang, Mr. Li Shengfeng and re-designate Mr. Choi Wai Hong, Clifford as non-executive Directors, and appoint Mr. Zhao Lin, Mr. Wong Yiu Kit Ernest and Ms. Cho Mei Ting as independent non-executive Directors with effect from the date of Resumption.

The appointment of the abovementioned proposed Directors shall require the approval of more than 50% of the votes cast by the Independent Shareholders at the SGM by poll. It is expected that the appointment of the proposed Directors will be effective on the date of Resumption and they will remain with the Board after Resumption.

Set out below are the biographical details of the existing Directors and the proposed Directors:

#### Existing Directors

##### Mr. Choi Wai Hong, Clifford (蔡偉康)

Mr. Choi Wai Hong, Clifford (蔡偉康), aged 63, is proposed to be re-designated as an non-executive Director and a member of the audit committee. Mr. Choi obtained a finance degree in finance and accounting from The Victoria University of Manchester, United Kingdom, in 1982. Mr. Choi is a member of (i) The Hong Kong Institute of Certified Public Accountants; (ii) The Institute of Chartered Accountants in England and Wales; (iii) The Association of Chartered Certified Accountants; and (iv) The Taxation Institute of Hong Kong. Mr. Choi currently holds the HKICPA Practising Certificate.

Mr. Choi joined Pricewaterhouse (currently known as PricewaterhouseCoopers) in Hong Kong since January 1983 and departed in July 1992 with his last position as manager. He was subsequently a general manager in DCH MSC (China) Limited, NHK Distribution Company Limited and Porsche Centre Hangzhou from July 1992 to June 1999, July 1999 to December 2003 and January 2004 to August 2012, respectively. He then joined Princess Yacht Southern China Limited as a chief executive officer from September 2012 to November 2012 and later on as a director in the NHK Yacht Services division of NHK Distribution Company Limited from December 2012 to August 2017. Mr. Choi then joined Beijing Glory Star Centre Automotive Sales and Service Company Limited (北京極光星徽汽車銷售服務有限公司) as its general manager from September 2017 to January 2018. He re-joined NHK Distribution Company Limited since 2003 and currently serves as its director.

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## LETTER FROM THE BOARD

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Mr. Choi served as an executive director and an authorised representative of Arta TechFin Corporation Limited (formerly known as Freeman FinTech Corporation Limited), a company listed on the Main Board of the Stock Exchange (stock code: 279) from 19 November 2020 to 29 October 2021, and also served as a non-executive director of Silk Road Logistics Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 988) from 4 June 2021 to 14 December 2021. Mr. Choi served as an independent non-executive director of Bolina Holding Co., Ltd, which was incorporated in the Cayman Islands with limited liability and was delisted from the Main Board of the Stock Exchange on 10 March 2021, from 29 January 2021 to 10 March 2021.

Mr. Choi is a non-executive director of Xinming China Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2699) from 16 April 2021; an independent non-executive director of South Shore Holdings Limited (Provisional Liquidators Appointed), a company listed on the Main Board of the Stock Exchange (stock code: 577) from 18 May 2021, and an independent non-executive director of DreamEast Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 593) from 10 December 2021.

Save as disclosed above, Mr. Choi does not hold any other directorships in any listed public companies in the last three years.

Mr. Choi does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Choi does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Choi that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr. Lau Wai Leung, Alfred (劉偉樑)**

Mr. Lau Wai Leung, Alfred (劉偉樑), aged 41, has over 19 years of working experience in accounting, corporate finance, debt restructuring and private equity investment. He obtained a bachelor's degree in business administration from the City University of Hong Kong in 2002. He is a member of the American Institute of Certified Public Accountants and is also certified as a certified public accountant in Washington State of the United States of America. Mr. Lau has been an independent non-executive director of Sau San Tong Holdings Limited, a company listed on the GEM Board of the Stock Exchange (stock code: 8200), since December 2016. Mr. Lau served as a non-executive director of Risecomm Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1679) from 22 November 2017, and was subsequently re-designated as an executive director on 21 January 2019 until 24 June 2020, and was appointed as the company secretary from 3 July 2020 and was appointed as an executive director from 19 January 2021. Mr. Lau has been an

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## LETTER FROM THE BOARD

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independent non-executive director of Xinming China Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2699) from 18 November 2021.

Save for his directorship with the Company, Mr. Lau has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Lau does not hold any other directorships in any listed public companies in the last three years.

Mr. Lau does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Lau does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Lau that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr. Leung Vincent Gar-gene (梁家進)**

Mr. Leung Vincent Gar-gene (梁家進), aged 36, has over 12 years of experience in auditing, accounting, finance and management. He has been an independent non-executive director of Prosperous Printing Company Limited, a company listed on the Stock Exchange (stock code: 8385), since 15 November 2017. He is also currently a director of Gemcoast Limited, a private company in Hong Kong principally engaged in providing financial consultancy services to its clients. He is a member of Chartered Accountants in Australia and New Zealand and is a member of its Hong Kong Committee. He is also a licensed person to carry on Type 9 (asset management) regulated activity under the SFO since 19 July 2019.

Mr. Leung previously worked for PricewaterhouseCoopers within its financial assurance division in its Sydney and Hong Kong offices from January 2006 to May 2012 and from January 2013 to September 2014 respectively. From June to December 2012, Mr. Leung worked as the group finance manager for Bega Cheese Limited, the shares of which are listed on the Australian Securities Exchange (ASX securities code: BGA). From 12 February 2018 to 22 February 2019, Mr. Leung served as an independent non-executive director of Martin Aircraft Company Limited (“Martin Aircraft”), the shares of which were formerly listed on the Australian Securities Exchange (ASX Securities code: MJP). On 4 June 2018, Martin Aircraft was delisted because of the low trade volume of its shares, and to save listing and associated costs.

Save for his directorship with the Company, Mr. Leung has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Leung does not hold any other directorships in any listed public companies in the last three years.

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## LETTER FROM THE BOARD

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Mr. Leung does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Leung does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Leung that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Proposed executive Directors**

#### **Mr. Shi Yaofeng (施姚峰)**

Mr. Shi Yaofeng (施姚峰), aged 46, is proposed to be appointed as an executive Director and the chief executive officer of the Company. Mr. Shi has over 20 years of experience in supply chain operation and management in the paper and pulp industry. Mr. Shi graduated from the Ningbo University (寧波大學) in July 1997 with a major in economics management. From August 1997 to July 1998, Mr. Shi joined Ningbo Boyang Textile Co., Ltd Changsha Office\* (寧波博洋紡織有限公司長沙辦事處) and Hangzhou Jinguang Paper Co., Ltd.\* (杭州金光紙業有限公司) in August 1998. In December 2003, Mr. Shi joined Xiamen C&D Paper, and was later promoted to the position of deputy general manager, where he is responsible for overseeing the company's paper business department.

Save for his proposed directorship with the Company, Mr. Shi has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Shi does not hold any other directorships in any listed public companies in the last three years.

Mr. Shi does not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Shi does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Shi dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Shi will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Shi is determined by the remuneration committee of the Company and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions. Mr. Shi will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

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## LETTER FROM THE BOARD

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Save as disclosed above, there is no other matters in relation to the appointment of Mr. Shi that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr. Huang Tiansheng (黃田勝)**

Mr. Huang Tiansheng (黃田勝), aged 40, is proposed to be appointed as an executive Director. Mr. Huang has over 15 years of experience in managing the supply chain of paper industry. Mr. Huang joined Xiamen C&D Paper in August 2002, where he has been responsible for the management of the supply of paper products in Guangdong Province and Zhejiang Province of the PRC. He was promoted to assistant general manager in January 2016, and he is currently responsible for the development and operation of the paper products of Xiamen C&D Paper in the Eastern China area.

Mr. Huang obtained his bachelor degree in economics from Hangzhou Business College (杭州商學院) (now known as Zhejiang Gongshang University (浙江工商大學)) in July 2002, where he was majored in international trade.

Save for his proposed directorship with the Company, Mr. Huang has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Huang does not hold any other directorships in any listed public companies in the last three years.

Mr. Huang does not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Huang does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Huang dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Huang will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Huang will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Huang that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Ms. Shi Chenye (施晨燁)**

Ms. Shi Chenye (施晨燁), aged 37, is proposed to be appointed as an executive Director and the vice chief executive officer of the Company. Ms. Shi has over 13 years of experience in sales and marketing in different industries including the manufacturing industry. From January 2016 to present, she has been the president of the Zhejiang Xinshengda Group.

Ms. Shi obtained a bachelor degree of management from Macao Polytechnic Institute in July 2006.

Save for her proposed directorship with the Company, Ms. Shi has not previously held and is not holding any other position with any of the Company or its subsidiaries. Ms. Shi does not hold any other directorships in any listed public companies in the last three years.

Ms. Shi does not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Ms. Shi does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Ms. Shi dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Ms. Shi will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Ms. Shi will continue to work at Zhejiang Xinshengda and/or its associates after her appointment becomes effective.

Save as disclosed above, there is no other matters in relation to the appointment of Ms. Shi that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Proposed non-executive Directors**

#### **Mr. Cheng Dongfang (程東方)**

Mr. Cheng Dongfang (程東方), aged 43, is proposed to be appointed as a non-executive Director, the chairman of the Board, a member of each of the nomination committee and the remuneration committee, and an authorised representative of the Company. Mr. Cheng has over 20 years of operational and management experience in the paper and pulp industry. In 2000, Mr. Cheng joined

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## LETTER FROM THE BOARD

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Xiamen C&D Inc. as a business salesperson and was promoted to the position of assistant general manager of Xiamen C&D Paper (previously known as Xiamen C&D Packaging Co.\* (廈門建發包裝有限公司)), responsible for overseeing the operation and management of the company's paper manufacturing business. Mr Cheng was later promoted to the position of general manager of Xiamen C&D Paper, and was responsible for the company's strategic planning, business development, company operations and etc.

Mr. Cheng graduated from Nanjing University of Science & Technology (南京理工大學) in July 2000. He is also the vice president of China Paper Association (中國造紙協會) and the honorary president of Xiamen Printing Association (廈門印刷協會).

Save for his proposed directorship with the Company, Mr. Cheng has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Cheng does not hold any other directorships in any listed public companies in the last three years.

Mr. Cheng does not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Cheng does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Cheng dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Cheng will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Cheng will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Cheng that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr. Li Shengfeng (李勝峰)**

Mr. Li Shengfeng (李勝峰), aged 42, is proposed to be appointed as a non-executive Director. Mr. Li has around 16 years' experiences in the paper manufacturing industry. In 2003, Mr. Li founded and acted as the general manager of Hangzhou Fuyang Shengda Paper Co., Ltd.\* (杭州富陽勝大紙業有限公司). In over 10 years' time, Mr. Li has, both in his own name and through Zhejiang Xinsengda, acquired 12 companies, including Hangzhou Fengda Paper Co., Ltd.\* (杭州豐達紙業有限公司), Hangzhou Fuyang Hualong Paper Co., Ltd.\* (杭州富陽華隆紙業有限公司)

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## LETTER FROM THE BOARD

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and Zhejiang Wenfeng Paper Co., Ltd.\* (浙江文豐紙業有限公司). Mr. Li also became the shareholder of 7 companies, including Hangzhou Fuyang Maohong Paper Co., Ltd.\* (杭州富陽茂宏紙業有限公司), Hangzhou Fuyang Tiandi Paper Manufacturing Co., Ltd.\* (杭州富陽天地造紙實業有限公司) and Hangzhou Fengshou Paper Co., Ltd.\* (杭州豐收紙業有限公司). In 2016, Mr. Li founded Zhejiang Xinshengda, a company that integrates, amongst others, paper manufacturing, chemical engineering, import and export trade. Mr. Li is also the controlling shareholder of Zhejiang Xinshengda. As at the Latest Practicable Date, Zhejiang Xinshengda has 17 subsidiaries with over 1,800 employees and an annual production volume of over 1.0 million Tons of finished paper product, making it one of leading enterprises in the region. Mr. Li currently serves as the legal representative, executive director and general manager of Zhejiang Xinshengda. Mr. Li was appointed as the executive committee member of Hangzhou Fuyang District Federation of Industry and Commerce (杭州市富陽區工商聯合會) in 2016 and the chairman of the Chunjiang Chamber of Commerce of Hangzhou Fuyang District (杭州市富陽區春江商會) in December 2017. In 2018, Mr. Li established a paper manufacturing industrial park in Malaysia, realizing the strategy of domestic and international dual-track operation.

Save for his proposed directorship with the Company, Mr. Li has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Li does not hold any other directorships in any listed public companies in the last three years.

Mr. Li does not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Li does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Li dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Li will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Li will continue to work at Zhejiang Xinshengda and/or its associates after his appointment becomes effective.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Li that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Mr. Choi Wai Hong, Clifford (蔡偉康)**

For the biography of Mr. Choi, please refer to the section headed “Existing Directors”.

The Company has entered into a director’s service contract with Mr. Choi dated 28 December 2021 for an term of three years commencing on the date of Resumption, in substitution of his existing director’s service contract, subject to termination by either party giving three months’ written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Choi will be entitled to an annual director’s service fee of RMB360,000, discretionary bonus and/or other benefits, *inter alia*, director’s insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director’s service contract. The remuneration of Mr. Choi is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

### **Proposed independent non-executive Directors**

#### **Mr. Zhao Lin (趙琳)**

Mr. Zhao Lin (趙琳), aged 58, is proposed to be appointed as an independent non-executive Director and the chairman of each of the nomination committee and the remuneration committee. He will be responsible for overseeing the Group’s management independently and providing independent advice to the Board.

Mr. Zhao has over 36 years of experience in the paper and pulp manufacturing industry. In 1985, he joined Yibin Paper Industry Co., Ltd. (宜賓紙業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600793) as an assistant engineer, where he last served as the general manager and vice-chairman. In 2004, Mr. Zhao started to work for Sichuan Youfun Paper Group (四川永豐紙業集團), where he last served as the general manager of Sichuan Yongfeng Plasm Paper Co., Ltd. (四川永豐漿紙股份有限公司), and the general manager and chairman of the board of Luzhou Yongfeng County Pulp & Paper Co., Ltd. (瀘州永豐漿紙有限責任公司). Currently, Mr. Zhao is the head engineer of Taison Technology (Group) Co., Ltd. (泰盛科技(集團)股份有限公司), the general manager of Sichuan Yongfeng Plasm Paper Co., Ltd. (四川永豐漿紙股份有限公司) and the chairman of the board of Luzhou Yongfeng County Pulp & Paper Co., Ltd. (瀘州永豐漿紙有限責任公司).

Mr. Zhao obtained a bachelor degree of engineering from the Shanxi University of Science & Technology (陝西科技大學) (formerly known as North West Light Industry College (西北輕工業學院)) in 1985, where he majored in pulp and paper manufacturing. Mr. Zhao obtained the professorate senior engineer qualification in 2013. He became a member of China Technical Association of Paper Industry (中國造

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紙學會) and China Paper Association (中國造紙協會) in 1987 and 1988 respectively. Currently, he is an expert committee member and council member in China Paper Association (中國造紙協會).

Save for his proposed directorship with the Company, Mr. Zhao has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Zhao does not hold any other directorships in any listed public companies in the last three years.

Mr. Zhao does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Zhao does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Zhao for an term of three years commencing on the date of Closing subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Zhao will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Zhao is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Zhao that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr. Wong Yiu Kit Ernest (黃耀傑)**

Mr. Wong Yiu Kit Ernest (黃耀傑), aged 54, is proposed to be appointed as an independent non-executive Director and the chairman of the audit committee. He will be responsible for overseeing the Group's management independently and providing independent advice to the Board.

Mr. Wong has accumulated over 20 years of experience in venture capital, corporate finance and management. He was the vice president of Vertex Management (HK), an international venture capital firm in Singapore, from July 2000 to October 2002. He worked at Hong Kong Applied Science and Technology Research Institute Company Limited from November 2002 to April 2008, where he last served as the chief financial officer. He was an executive director of Adamas Finance Asia Limited (formerly known as China Private Equity Investment Holdings Limited) ("Adamas Finance"), a company whose shares are listed on the London Stock Exchange (stock code: ADAM) and the Frankfurt Stock Exchange (stock code: 1CP1), from May 2008

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to February 2014 and a non-executive director of Adamas Finance from February 2014 to June 2019. From October 2014 to August 2019, he worked for KVB Kunlun Financial Group Limited (now known as CLSA Premium Limited) (“Kunlun Financial”), a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 6877), as the chief financial officer and the company secretary. During the period from May 2018 to August 2019, he was concurrently an executive director of Kunlun Financial. He is currently the president and the group chief financial officer of KVB Holdings Limited.

From November 2016 to September 2018, he was an independent non-executive director of Legend Strategy International Holdings Group Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1355). From February 2017 to August 2019, he was an independent non-executive director of China Regenerative Medicine International Limited, a company whose shares are listed on GEM of the Stock Exchange (stock code: 8158). From July 2014 to July 2020, he was an independent non-executive director of HongDa Financial Holding Limited (now known as China Wood International Holding Co., Limited), a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1822).

He is currently an independent non-executive director of each of RENHENG Enterprise Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 3628), Progressive Path Group Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1581), Aidigong Maternal & Child Health Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 286), Goldstone Investment Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 901) and Kwong Luen Engineering Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1413).

Mr. Wong obtained a bachelor’s degree in business administration from The University of Hong Kong in 1991, a master’s degree of science in investment management from The Hong Kong University of Science and Technology in 1998, a master’s degree of science in electronic engineering from The Chinese University of Hong Kong in 2008, and a master’s degree in management from Saïd Business School of Oxford in 2020.

Mr. Wong was admitted as a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants in November 1999 and October 2002, respectively. He was admitted as a chartered financial analyst of the Institute of Chartered Financial Analysts in September 1998 and an associate member of the Institute of Chartered Accountants in England and Wales in January 2008. He is also acting as the court member of The University of Hong Kong, the global court member of the Association of Chartered Certified Accountants, the immediate past chairman of the Hong Kong Committee of

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Association of Chartered Certified Accountants, the former president of the Hong Kong University Graduates Association, the former deputy chairman of the HKU Convocation, and an former executive director of the CFA Hong Kong.

Save for his proposed directorship with the Company, Mr. Wong has not previously held and is not holding any other position with any of the Company or its subsidiaries. Save for disclosed above, Mr. Wong does not hold any other directorships in any listed public companies in the last three years.

Mr. Wong does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Wong does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Mr. Wong dated 28 December 2021 for an term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Wong will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Wong is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Wong that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Ms. Cho Mei Ting (曹美婷)**

Ms. Cho Mei Ting (曹美婷), aged 58, is proposed to be appointed as an independent non-executive Director and a member of each of the audit committee, the nomination committee and the remuneration committee. She will be responsible for overseeing the Group's management independently and providing independent advice to the Board.

Ms. Cho had worked for several solicitor firms during 2004 to 2010. From April 2004 to October 2007, Ms. Cho worked as an assistant solicitor in Messrs. Paul W. Tse. She later joined Messrs. Au-Yeung, Cheng, Ho & Tin as a lawyer from October 2007 to August 2010. She then founded Messrs. Cho Mei Ting & Co., Solicitors in 2010 as a sole proprietor. She was an independent non-executive director of China Ludao Technology Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2023) from October 2013 to July 2017, and an

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independent non-executive director of Sunray Engineering Group Limited, a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8616) from March 2020 to present.

Ms. Cho obtained her Bachelor's degree in Arts from The University of Hong Kong in November 1986. She then obtained her Bachelor's degree in Laws from Manchester Metropolitan University in September 2000 and further obtained her postgraduate certificate in laws from The University of Hong Kong in June 2001. Ms. Cho is a qualified solicitor in Hong Kong since 2003.

Save for her proposed directorship with the Company, Ms. Cho has not previously held and is not holding any other position with any of the Company or its subsidiaries. Save for disclosed above, Ms. Cho does not hold any other directorships in any listed public companies in the last three years.

Ms. Cho does not have any interests in the Shares within the meaning of Part XV of the SFO. Ms. Cho does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The Company has entered into a director's service contract with Ms. Cho dated 28 December 2021 for an term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Ms. Cho will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Ms. Cho is determined by the remuneration committee of the Board and approved by the Board with reference to her position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Save as disclosed above, there is no other matters in relation to the appointment of Ms. Cho that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Among the proposed directors, Mr. Cheng Dongfang (程東方), Mr. Shi Yaofeng (施姚峰), Mr. Huang Tiansheng (黃田勝), Ms. Shi Chenye (施晨燁) and Mr. Li Shengfeng (李勝峰) will continue to serve Xiamen C&D Paper or Zhejiang Xinshengda and/or their respective associates after the directors' appointment becoming effective.

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## LETTER FROM THE BOARD

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A summary of the appointments and remuneration of the proposed Directors are set out below:

<b>Position</b>	<b>Number of appointments</b>	<b>Monthly salary (RMB'000)</b>
Executive Directors	3	nil
Non-executive Directors ( <i>Note</i> )	3	nil/30
Independent non-executive Directors	3	20

*Note:* Among the three proposed non-executive Directors, only Mr. Choi Wai Hong, Clifford will be entitled to a monthly directors service fee of RMB30,000.

Further announcement will be made by the Company when the appointments of the proposed Directors become effective and the audit committee, remuneration committee and nomination committee are formed.

### **PROPOSED CHANGE OF COMPANY SECRETARY OF THE COMPANY AND AUTHORISED REPRESENTATIVE**

As at the Latest Practicable Date, the company secretary and authorised representative of the Company is Mr. Yu Ngai. Mr. Yu intends to resign, and the Board intends to appoint Dr. Wong Chi Ho, Raymond and Ms. Li Jing as the joint company secretaries and Dr. Wong Chi Ho as an authorised representative of the Company with effect from the date of Resumption. Mr. Yu has confirmed that he has no disagreement with the Board and there is no matter in relation to his resignation and cessation above-mentioned which needs to be brought to the attention of the shareholders of the Company and the Stock Exchange. Set out below is the biographical details of Dr. Wong Chi Ho, Raymond:

#### **Dr. Wong Chi Ho, Raymond (黃志豪)**

Dr. Wong Chi Ho, Raymond (黃志豪), aged 50, is proposed to be appointed as the company secretary and an authorised representative of the Company. Dr. Wong has over 20 years of experience of advising corporate law with particular focus on capital markets, public takeovers, mergers and acquisitions, corporate restructuring and regulatory compliance. Dr. Wong is the managing partner of the Hong Kong office of Seyfarth Shaw, an international law firm. Before joining Seyfarth Shaw in 2017, Dr. Wong has been a partner in several international law firms. He acted as the joint company secretary of China Golden Classic Group Limited, a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8281) from August 2018 to August 2021.

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## LETTER FROM THE BOARD

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Dr. Wong obtained a bachelor of engineering degree in electrical and electronic engineering from the Imperial College of Science Technology and Medicine of the University of London in August 1994. He obtained the diploma in law from the City University of London in July 1997, and the postgraduate diploma in legal practice from the University of Oxford in November 1998. He then obtained a master of arts degree in law from City University of London in March 2000, a master of laws degree in Chinese law from the University of Hong Kong in December 2003, and a doctor of laws degree from East China University of Political Science and Law (華東政法大學) in December 2019.

Dr. Wong was admitted as a solicitor of the Supreme Court of England and Wales in September 2000, a solicitor of the Hong Kong Court in December 2000 and a solicitor of Ireland in June 2018.

### **Ms. Li Jing (李晶)**

Ms. Li Jing (李晶), aged 34, is proposed to be appointed as a joint company secretary of the Company. Ms. Li joined Xiamen C&D Paper in July 2011 and she is currently working in the investment management department of Xiamen C&D Paper.

Ms. Li obtained a bachelor of engineering degree in machine design, manufacturing and automation from Jimei University (集美大學) in July 2009. She then obtained a master of science degree in industrial engineering from the Oregon State University in June 2011. In June 2021, Ms. Li finished all the courses for a master of business administration degree provided by Xiamen University (廈門大學). Ms. Li obtained the intermediate qualification in business administration in December 2013.

Pursuant to Rule 3.28 of the Listing Rules, an issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary of the issuer. Ms. Li currently does not possess the qualifications of company secretary as required under Rule 3.28 of the Listing Rules.

In relation to the appointment of Ms. Li as a joint company secretary of the Company, the Company has applied to the Stock Exchange for a Rule 3.28 Waiver during the Rule 3.28 Waiver Period, the commencement of which is also the date of Ms. Li's appointment as a joint company secretary of the Company, on the conditions that (i) Ms. Li will be assisted by Dr. Wong during the Waiver Period; and (ii) the Company shall notify the Stock Exchange at the end of the Waiver Period for the Stock Exchange to revisit the situation. Further announcement will be made by the Company as and when appropriate.

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## LETTER FROM THE BOARD

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### PROPOSED CHANGE OF CHIEF FINANCIAL OFFICER OF THE COMPANY

As at the Latest Practicable Date, the chief financial officer of the Company is Mr. Yu Ngai. Mr. Yu Ngai intends to resign, and the Board intends to appoint Mr. Lu Zhiwen as the chief financial officer of the Company with effect from the date of Resumption. Mr. Yu Ngai has confirmed that he has no disagreement with the Board and there is no matter in relation to his resignation and cessation above-mentioned which needs to be brought to the attention to the shareholders of the Company and the Stock Exchange. Set out below is the biographical details of Mr. Lu Zhiwen:

#### **Mr. Lu Zhiwen (盧志文)**

Mr. Lu Zhiwen (盧志文), aged 44, is proposed to be appointed as the chief financial officer of the Company. Mr. Lu has over 20 years of experience in financial management. He joined the Xiamen C&D Group in August 2008, where he took the position of chief financial officer for a number of members of the Xiamen C&D Group, including Xiamen C&D Logistics Co., Ltd. (廈門建發物資有限公司), Xiamen C&D Metal Co., Ltd. (廈門建發金屬有限公司), Cheongfuli (Xiamen) Co., Ltd. (昌富利(廈門)有限公司). From 2018 to present, Mr. Lu has been acting as the chief financial officer of Xiamen C&D Paper.

Mr. Lu graduated from the accounting major of Hunan University in June 2000. He obtained the senior accountant qualification in August 2016.

### POSSIBLE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

After Closing, the Investor will become the majority Shareholder and a connected person of the Company. As the Investor is indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively, Xiamen C&D Paper or any subsidiary of Xiamen C&D Paper will become an associate of the Investor, and therefore, a connected person of the Company.

After Closing, UPPSD will continue to sell the Paperboard Products to Xiamen C&D Paper or its subsidiary. As such, on 28 December 2021, UPPSD (as vendor) and Xiamen C&D Paper (as purchaser) entered into the Paperboard Sales Framework Agreement to govern the contractual relationship for Paperboard Sales between UPPSD and Xiamen C&D Paper and its subsidiaries. Accordingly, it is expected that after Closing, the Paperboard Sales will constitute non-exempted continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has published an announcement in relation to Paperboard Sales Continuing Connected Transactions on the 28 December 2021. Please also see the section headed "Principal Terms of the Paperboard Sales Framework Agreement" below for the principal terms of the Paperboard Sales Framework Agreement.

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## LETTER FROM THE BOARD

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### PRINCIPAL TERMS OF THE PAPERBOARD SALES FRAMEWORK AGREEMENT

#### Introduction

On 28 December 2021, UPPSD and Xiamen C&D Paper entered into the Paperboard Sales Framework Agreement to govern the contractual relationship for Paperboard Sales between UPPSD and Xiamen C&D Paper Group. The principal terms of the Paperboard Sales Framework Agreement are set out as follows:

- Date : 28 December 2021
- Parties : (1) UPPSD (as the vendor); and  
(2) Xiamen C&D Paper (as the purchaser).
- Nature of Transactions : UPPSD will sell the Paperboard Products to Xiamen C&D Paper Group on a non-exclusive basis based on the quantity, unit price and specifications set out in the individual orders to be placed by Xiamen C&D Paper Group from time to time.
- Term : The Paperboard Sales Framework Agreement has a fixed term from 28 December 2021 to 31 March 2024.
- Price : The unit price of the Paperboard Products will be determined with reference to the prevailing market price in the PRC for the same type of products and in accordance with the pricing policies of the Group made for independent third party customers as detailed in the paragraph headed "Pricing Policy" below.
- In case of increase in the prevailing market price of the Paperboard Products or the raw material needed to produce the Paperboard Products before the Paperboard Products is delivered to Xiamen C&D Paper Group pursuant to an order, UPPSD is entitled to adjust the unit price of the Paperboard Products.
- Payment : UPPSD shall deliver the Paperboard Products within one month upon receiving the payment from Xiamen C&D Paper Group.
- The payment of the Paperboard Products shall be settled by way of telegraphic transfer.

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**LETTER FROM THE BOARD**

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Historical transaction amount : The unaudited historical transaction amount for sales of Paperboard Products produced by UPPSD of the Group to Xiamen C&D Paper Group during the period from 1 August 2021 to the Latest Practicable Date amounted to approximately RMB157 million.

The Group had no Paperboard Products transaction with Xiamen C&D Paper Group during the Entrusted Operation Period.

Cap Amount : The transaction amount under the Paperboard Sales Framework Agreement for each of the three financial years (or period, as the case may be) ending 31 March 2024 will not exceed the following Proposed Caps:

<b>Period ending 31 March 2022 (RMB)</b>	<b>Financial year ending 31 March 2023 (RMB)</b>	<b>Financial year ending 31 March 2024 (RMB)</b>
Proposed Caps	96,400,000	420,000,000

The Proposed Caps under the Paperboard Sales Framework Agreement were determined based on:

- (i) the estimated volume of Paperboard Products required by Xiamen C&D Paper Group from the Group for the three financial years (or period) ending 31 March 2024 with reference to its internal sales targets and expected market demand for its products; and
- (ii) the estimated unit price of the Paperboard Products, which was determined with reference to the trend of prevailing selling price of the Paperboard Products as published on the Reference Site for the period from 1 October 2020 to 30 September 2021.

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## LETTER FROM THE BOARD

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In determining the Proposed Caps, the parties have also taken into account the assumption that during the term of the Paperboard Sales Framework Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the parties of the Paperboard Sales Framework Agreement.

### Proposed Caps

With regards to the Proposed Caps, while the estimated annual production capacity of UPPSD is 460,000 tons, the annual sales volume of the paper products of Xiamen C&D Paper was more than 4 million tons in 2020. Considering Xiamen C&D Paper's leading position in the supply chain of paper and pulp products with a wide network comprising over 5,000 customers and over 400 suppliers, the Proposed Caps are determined after arm's length negotiations based on the existing customer needs and sales targets of Xiamen C&D Paper Group and production capacity of UPPSD during the past record periods.

Based on price information generated over the four months ended 30 November 2021 by UPPSD, and with reference to the price trend published on the Reference Site and public pricing information over the past 12 months prior to the Latest Practicable Date, considering the price fluctuation factors in the market, the parties have determined that the range of the unit price for the Paperboard Products to determine the Proposed Caps be as follows:

Type of products	Unit price range (RMB)
Coated duplex board	3,800 to 4,800
Kraft linerboard	3,300 to 4,100

### Pricing Policy

The basis of determining the prices of the Paperboard Products to be supplied by UPPSD under the Paperboard Sales Framework Agreement will be on the following principles:

- (i) the Prevailing Market Terms based on the market information collected by the Group through primarily, the prevailing market price from the Reference Site, and secondarily, its network (i.e. the core management team of UPPSD including Mr. Jacky Lam, Mr. Jin Shumin and Mr. Wang Guanyue, with over 20 years of experience in the paper industry, and Ms. Liu Yuanyuan, with over 10 years of experience in the paper industry, and therefore with the ability to make objective pricing policies for the Paperboard Products); and

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## LETTER FROM THE BOARD

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(ii) the Independent Products Pricing Terms.

Based on the above, UPPSD will determine the final prices through comparison with the Prevailing Market Terms and Independent Products Pricing Terms from at least two independent customers of similar products, depending on the availability of such information at the time of transaction.

UPPSD will also take into account the prevailing market prices of similar recovered paper and recycled pulp as publicly announced on the Reference Site. The Reference Site is widely used by paper manufacturers in the world and provides reliable price assessments in the pulp and paper products markets. The Reference Site has been in operation since 1985 and is currently operated by Fastmarkets RISI. Fastmarkets RISI is the world's leading reporting and market analysis provider for the forest products sector with offices located around the world (including London, Brussels, Shanghai, New York and other major cities). Based on the information available to the Board, Fastmarkets RISI's clients comprise more than 97% of the world's forest products sector, including industry end-users, suppliers, investors and financial-service providers. The Reference Site contains pricing information in relation to the current and historical market price of pulp and paper products.

In any event, UPPSD will conduct such comparison before entering into the transaction with the connected person and will ensure that the pricing terms agreed with the connected person are in line with the prevailing market price and are in line with the pricing terms and policies applied to independent customers.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS**

Xiamen C&D Paper is a limited liability company incorporated in the PRC. Xiamen C&D Paper is a wholly-owned subsidiary of Xiamen C&D Inc., a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600153). In the Fortune Global 500 list, Xiamen C&D Inc. ranked 148 in 2021. As at the Latest Practicable Date, Xiamen C&D Paper has more than 25 subsidiaries and branch companies in the PRC. Established in 1992, Xiamen C&D Paper Group is one of the biggest service providers of forestry, pulp and paper products in the PRC. Xiamen C&D Paper has built up a comprehensive "one-stop" service chain comprising order placing, logistics, insurance, warehousing and financing. Xiamen C&D Paper has obtained the FSC-CoC certification (FSC<sup>TM</sup> Chain-of-Custody) issued by the Forest Stewardship Council, an international, non-governmental organization which sets standards for forestry practices. The FSC-CoC certification is able to evidence that the wood material sourced and distributed by Xiamen C&D Paper Group is legal and responsibly managed. As at the Latest Practicable Date, Xiamen C&D Paper has an annual sales volume of over 9 million tons of paper products and pulps and a sales network comprising over 5,000 customers in the PRC and overseas.

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## LETTER FROM THE BOARD

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Under the Paperboard Sales Framework Agreement, UPPSD could leverage on the industry leading position, the comprehensive value-added services and the sales network of Xiamen C&D Paper Group in the forestry, pulp and paper products distribution industry to expand its income stream and enhance its sales penetration. Having resourceful and reliable sales channel is crucial to the success of the Group. The commercial partnership with Xiamen C&D Paper Group could also enhance the Group's portfolio and reputation which would gradually increase the bargaining power of the Group when negotiating with independent third party customers.

Having taken into account the reasons for and benefits of the transactions contemplated under the Paperboard Sales Framework Agreement as set out above, the Directors are of the view that the transactions contemplated under the Paperboard Sales Framework Agreement are in the ordinary and usual course of business of the Group and the terms have been negotiated on an arm's length basis and on normal commercial terms or better. The Directors are also of the view that the terms of the Paperboard Sales Framework Agreement and the Proposed Caps are fair and reasonable and the entering of the Paperboard Sales Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

### **Internal Control relating to Paperboard Sales Framework Agreement**

To ensure that the transactions contemplated under the Paperboard Sales Framework Agreement will be on normal commercial terms that are fair and reasonable and will be on terms no less favourable to the Group than those available to the Group for the sales of Paperboard Products to independent third parties, the Company has adopted the following internal control measures:

- (i) The head office of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group. Each department and subsidiary of the Group shall submit an information sheet for each connected transaction (“關連交易審批確認單”及“合作交易方公司信息備案表”), setting out its terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least two independent third parties to the Group, to the account department of the Company and the secretary to the Board for review and approval. The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted.
- (ii) The joint company secretaries of the Company responsible for maintaining a list of connected parties, and circulate to each of the subsidiaries every half year.
- (iii) The joint company secretaries of the Company monitors the carrying out of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group to ensure compliance with the Listing Rules, and is responsible for reporting to the audit committee of the Company (which comprises all independent non-executive Directors) on a half year basis.

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## LETTER FROM THE BOARD

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- (iv) Through reviewing the information gathered from the finance department of the Company, the external auditor of the Company will report to the Board annually on the continuing connected transactions of the Group in relation to their pricing policies and annual caps pursuant to the Listing Rules.

The Directors are of the view that the internal control measures above can ensure that the transactions contemplated under the Paperboard Sales Framework Agreement will be on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has published an announcement in relation to Paperboard Sales Continuing Connected Transactions on 28 December 2021.

### **THE RETAINED GROUP'S ABILITY TO OPERATE INDEPENDENTLY FROM THE CONCERT PARTY GROUP'S BUSINESS INTERESTS**

#### **Delineation of business between the Investor and the Retained Group**

The Investor is established on 10 May 2021 for the sole purpose of holding the equity interests of the Company upon Closing, while the Retained Group is principally engaged in the paper manufacturing business. Therefore, there is clear delineation between the business of the Investor and the Retained Group.

#### **Delineation of business between Xiamen C&D Paper and the Retained Group**

- (i) while the Retained Group only engages in the production and sales of coated duplex board and kraft linerboard as an upstream paper manufacturer, Xiamen C&D Paper operates as a downstream distributor who provides a much wider scope of value-added services. Xiamen C&D Paper is regarded as one of the largest distributors in the paper and pulp industry in China and is able to provide “one-stop” full supply chain services comprising supply of raw materials, distribution of paper and pulp products, warehousing and processing, logistics and delivery, sales settlement, risk management, financial leasing services and provision of industry information. These services are not provided by UPPSD;
- (ii) while the Retained Group only sells coated duplex board and kraft linerboard, Xiamen C&D Paper's product offering covers a much wider variety of forest products, including (a) paper (such as coated paper, white cardboard, double offset paper, white board (which is similar to the coated duplex board of the UPPSD), kraft linerboard), (b) pulp (such as bleached softwood pulp, bleached hardwood pulp, brown pulp, chemi-mechanical pulp), (c) wood chips, and (d) paper products (such as household paper, printing and wrapping paper). Among the different kinds of paper distributed by Xiamen C&D Paper, coated duplex board and kraft linerboard are not the core products. For the two years ended 31 December 2020 and the ten months ended 31 October 2021, the volume of the white board (which is similar to coated duplex board product of UPPSD) distributed by Xiamen C&D Paper represented less than 16% of the total volume of paper distributed. For the two years ended 31 December 2020 and the ten

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## LETTER FROM THE BOARD

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months ended 31 October 2021, the volume of the kraft linerboard distributed by Xiamen C&D Paper represented less than 19% of the total volume of paper distributed;

- (iii) while the customers of UPPSD primarily comprised of forest product distributors (such as Xiamen C&D Paper), the majority of customers of Xiamen C&D Paper are end-users (such as printing house, packaging manufacturers, publishers and food manufacturers). Over the three months from 1 August 2021 to 31 October 2021, over 90% of the top 20 customers of UPPSD are distributors. By contrast, during the two years ended 31 December 2020 and ten months ended 31 October 2021, more than 70% of white board and kraft linerboard sourced by Xiamen C&D Paper were resold to end-customers and paper product processing factories; and
- (iv) while the operation and production facilities of the Retained Group are located in Zaozhuang City, Shandong Province, Xiamen C&D Paper has established subsidiaries or representative offices in more than 45 cities across different provinces in China and overseas to serve its over 5,000 local and foreign customers. For the three months from 1 August 2021 to 31 October 2021 during the period of which UPPSD resumed its independent operation, over 70% of the sales volume of coated duplex board and kraft linerboard products (excluding Xiamen C&D Paper and its associates) of UPPSD were made to Shandong Province and adjacent provinces including Hebei Province and Henan Province. By contrast, for the two years ended 31 December 2020 and the ten months ended 31 October 2021, the volume of the white board and the kraft linerboard distributed to Shandong Province, Hebei Province and Henan Province represented less than 10% of the total volume of paper distributed by Xiamen C&D Paper.

Despite the fact that the Retained Group and Xiamen C&D Paper both sell coated duplex board and kraft linerboard products, the Retained Group and Xiamen C&D Paper are not competitors but business allies because:

- (i) Xiamen C&D Paper does not have production facilities and machineries designated for the manufacturing of coated duplex board and kraft linerboard products, it relies on paper manufacturers such as UPPSD to supply goods for it to resell to end-users. It is crucial for Xiamen C&D Paper to maintain a list of reliable paper manufacturing suppliers capable of timely delivery of quality products, so that it could fulfill the needs of its end-user customers. For the two years ended 31 December 2020 and the ten months ended 31 October 2021, over 97% of paper product procurement of Xiamen C&D Paper were sourced from paper manufacturers like UPPSD;
- (ii) while paper manufacturers normally prefer selling in bulk, receiving payment before commencement of production or delivery or customer pickup, end-users normally prefer purchasing as-needed, on credit, and delivered at place. Distributors such as Xiamen C&D Paper is able to integrate and match the

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## LETTER FROM THE BOARD

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different needs and demands of paper manufacturers and end-users by purchasing goods from paper manufacturers in bulk and allocating the goods to a wide network of end-users with value-added services such as financing lease, warehousing and logistics. Xiamen C&D Paper communicates with its suppliers (including UPPSD) from time to time to formulate a purchase plan matching and integrating the production plan of the suppliers and the needs of the customers in terms of types of products, price, time requirements, etc. Compared with direct sales to end-users, dealing with distributors such as Xiamen C&D Paper allows UPPSD to maximise its production capacity, increase sales turnover, enhance customer penetration, strengthen cash flow, limit risk of bad debt and reduce warehousing and delivery costs; and

- (iii) UPPSD and Xiamen C&D Paper has entered into the Paperboard Sales Framework Agreement pursuant to which UPPSD will sell the Paperboard Products to Xiamen C&D Paper on a non-exclusive basis and on normal commercial terms to, similar to transactions with other distributor customers of UPPSD, leverage on the industry leading position, comprehensive value-added services and extensive sales network of Xiamen C&D Paper. The interests of the Retained Group and Xiamen C&D Paper are aligned and the Paperboard Sales Framework Agreement is able to facilitate a stable and mutually beneficial business relationship between the Retained Group and Xiamen C&D Paper.

### **Delineation of business between Zhejiang Xinshengda and the Retained Group**

Zhejiang Xinshengda is conducting its business through its wholly-owned subsidiary XSD International Pte. Ltd in Malaysia. As at the Latest Practicable Date, Zhejiang Xinshengda is at the final stage of building a manufacturing plant in Kedah State, Malaysia. After completion of the construction of its production facility, Zhejiang Xinshengda will principally manufacture and sell recycled paper, paper board, double coated paper, coated duplex board with grey back and waste paper pulp. Zhejiang Xinshengda used to conduct paper manufacturing and trading business in the PRC but such business had been completely ceased since April 2020.

The business model of Zhejiang Xinshengda is substantially different and can be delineated from the business model of the Retained Group in terms of operation region and customer coverage:

- (i) while the operation and production facilities of the Retained Group are located in Zaozhuang City, Shandong Province to cover its customers in China, Zhejiang Xinshengda has gradually relocated its paper and pulp manufacturing and trading business from China to Malaysia since 2018. As at the Latest Practicable Date, all of its production facilities in China have ceased to operate; and
- (ii) while the customers of the Retained Group are located in China with a primary focus on the Shandong Province and Henan Province, the targeted customers of Zhejiang Xinshengda are located in the South East Asia market.

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## LETTER FROM THE BOARD

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### **Delineation of business between Shandong Bairun and the Retained Group**

Shandong Bairun was established for the sole purpose of carrying out the paper manufacturing business for UPPSD during the Entrusted Operation Period. Following the approval of the UPPSD Bankruptcy Reorganisation Plan by the PRC Court on 1 August 2021, UPPSD had gradually resumed its independent operation and Shandong Bairun has ceased to sell coated duplex board and kraft linerboard products on behalf of UPPSD or engage in any other paper sales businesses. As at the Latest Practicable Date, Shandong Bairun does not have any active business activities and it is expected that such status will sustain after Closing. Therefore, there is clear delineation between the business of the Shandong Bairun and the Retained Group.

Since there is clear delineation of business between the Investor, Xiamen C&D Paper, Zhejiang Xinshengda, Shandong Bairun on the one hand and the Retained Group on the other hand, and considering that (a) the Retained Group's operations are independent from and do not rely on that of the Concert Party Group, (b) the Retained Group has an independent financial system, and (c) the day-to-day management of the Retained Group are conducted by a team of senior management while the day-to-day management of the Concert Party Group is carried out by separate professional management teams which operate independently from the management of the Retained Group, the Directors consider that Retained Group is capable of carrying out its business independently of the Concert Party Group and there is no existing and potential business competition between the Retained Group and the Concert Party Group.

### **INTERNAL CONTROL**

For the purpose of satisfying one of the Resumption conditions imposed by the Stock Exchange, Pan-China has been engaged by the Company as the internal control consultant of the Company to conduct a comprehensive review of the internal control systems and procedures of the Group.

This internal control review was undertaken in accordance with Hong Kong Standard on Related Services 4400 "Engagement to perform agreed-upon procedures regarding financial information" issued by the HKICPA.

The internal control review report covers principally corporate governance, operational procedures, financial reporting and compliance with the Listing Rules. In addition, the review concentrated on the internal control systems of the Group in the areas of human resources, assets and funds management, purchase and sale business, and contract managements.

After the completion of the preliminary internal control review by Pan-China, based on the preliminary suggestion of Pan-China in October 2021, the Company and the senior management of the Group had rectified the weaknesses being identified in the preliminary internal control review and make improvements to the Group's internal control systems.

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## LETTER FROM THE BOARD

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On 13 December 2021, the Company published an announcement with respect to the results of the internal control review conducted by Pan-China, in which a summary of the key findings and remedial measures implemented by the Company are provided.

CFO is responsible for establishing overall compliance system, assisting in formulating the appropriate internal control policies and monitoring the Company's overall compliance with the internal control policies, operational guidelines and procedures, applicable regulatory requirements and reports in this regard to the Directors from time to time.

The CFO periodically reviews compliance policies and operational guidelines and procedures in compliance with the relevant laws and regulations and updates the relevant policies, guidelines and procedures if necessary. All functional departments are responsible for the implementation of the internal control policies and operational guidelines and procedures.

### SGM

The SGM will be convened and held by the Company at 2:00 p.m. on Monday, 24 January 2022 at Unit D, 13/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong, to consider and, if thought fit, approve, among others, the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals, the Paperboard Sales Continuing Connected Transactions, the proposed amendments to the Bye-Laws of the Company and proposed appointment of Directors.

The passing of the resolution(s) in relation to the Restructuring Agreement and the transactions contemplated thereunder (except the Capital Reorganisation), the grant of the Specific Mandates, the Special Deals, the Paperboard Sales Continuing Connected Transactions, the proposed appointment of Directors shall require the approval of more than 50% of the votes cast by the Independent Shareholders at the SGM by poll. In addition, the passing of the resolution in relation to the Whitewash Waiver, the Capital Reorganisation and the proposed amendments to the Bye-Laws of the Company shall require the approval of at least 75% of the votes cast by the Independent Shareholders.

Save for (i) the Investor, the Scheme Administrators, any creditors of the Company, any creditors under the UPPSD Bankruptcy Reorganisation and DaiEi, their associates, and the parties acting in concert with any of them who shall abstain from voting on the relevant resolutions to approve the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Special Deals, the proposed appointment of Directors, the Whitewash Waiver and the amendment of the Bye-Laws of the Company; and (ii) the Investor and its associates who shall abstain from the voting on the relevant resolutions to approve the Paperboard Sales Continuing Connected Transactions, no Shareholder will be required to abstain from voting in respect of the resolutions at the SGM. There is no discrepancy between any Shareholder's beneficial

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## LETTER FROM THE BOARD

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shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting rights at the SGM. As at the Latest Practicable Date, the Company had received Irrevocable Deed of Voting Undertakings from certain Shareholders namely Mr. Lee Seng Jin, Ms. Sham Yee Lan, Peggy and Mr. Chu Wai Kwong, who hold approximately 856,662,047 Shares in aggregate (representing approximately 75.07% shareholding of the Company) to, among others, exercise all voting rights attaching to Shares beneficially owned by each of them to vote in favour of the resolutions to approve (i) the Capital Reorganisation; (ii) the amendments to the Bye-Laws of the Company to reflect the Capital Reorganisation; (iii) the Restructuring Agreement together with the transactions contemplated thereunder; (iv) the grant of the Specific Mandates in respect of the issue and allotment of the Subscription Shares, the Placement Shares and the Creditors' Shares; (v) the Whitewash Waiver; (vi) the Special Deals; (vii) the proposed appointment of Directors and (viii) the Paperboard Sales Continuing Connected Transactions, as long as the voting rights under the relevant shares are permitted to be so exercised and not required to be abstained.

An Independent Board Committee comprising the independent non-executive Director has been established to advise the Independent Shareholders on the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals, and the Paperboard Sales Continuing Connected Transactions at the SGM. Dakin Capital Limited has been appointed with the approval of the Independent Board Committee to advise Independent Board Committee and the Independent Shareholders in relation to the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148, Electric Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the SGM or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof. In such event, your form of proxy will be deemed revoked.

Voting on the resolutions at the SGM will be taken by poll. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

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## LETTER FROM THE BOARD

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### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 18 January 2022 to Monday, 24 January 2022, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not later than 4:30 p.m. on Monday, 17 January 2022.

### INDEPENDENT FINANCIAL ADVISER

Dakin Capital Limited has been appointed with the approval of the Independent Board Committee to advise Independent Board Committee and the Independent Shareholders in relation to the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions at the SGM.

### RECOMMENDATION

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 119 to 176 in this circular which contains its advice to the Independent Shareholders (i) as to whether the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals, and the Paperboard Sales Continuing Connected Transactions are fair and reasonable; and (ii) as to voting at the SGM in relation to the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions, and the principal factors and reasons considered by it in arriving at its opinion.

The executive Directors consider that the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals, and the Paperboard Sales Continuing Connected Transactions are fair and reasonable and are in the best interest of the Company and the Independent Shareholders as a whole. Accordingly, the executive Directors recommend that the Shareholders should vote in favour of the resolutions, which will be proposed at the SGM, relating to (i) the Restructuring Agreement and the transactions contemplated thereunder, the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions; and (ii) the proposed appointment of proposed Directors.

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## LETTER FROM THE BOARD

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You are advised to read the letter from the Independent Financial Adviser mentioned above before deciding how to vote on the resolution(s) to be proposed at the SGM.

### ADDITIONAL INFORMATION

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2020 and will remain suspended pending fulfilment of the resumption conditions and such other further conditions that may be imposed by the Stock Exchange. The Company has submitted the Resumption Proposal to the Stock Exchange on 20 September 2021. The Company will keep the Shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate.

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

Shareholders and potential investors should note that the implementation of the transactions contemplated under the Restructuring Agreement are subject to a number of conditions precedent being fulfilled or waived, as applicable, and Completion is subject to such conditions being fulfilled. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

### WARNING:

**The Shareholders and potential investors of the Company shall note that, in the event that the Company fails to satisfy all of the Resumption conditions imposed by the Stock Exchange by 1 January 2022, the Listing Division of the Stock Exchange may recommend the Listing Committee to proceed with the cancellation of the Company's listing status at its discretion.**

**Publication of this circular does not indicate any decision or conclusion of the Stock Exchange not to delist the Company nor warrant any approval from the Stock Exchange on the resumption of trading of the Company's shares on the Stock Exchange.**

The release of this circular is not an indication that (a) the transactions contemplated under the Restructuring Agreement will be implemented and/or completed, or (b) the Resumption has been or will be approved, or (c) trading of the Shares will be resumed, or (d) the approval for the listing of the Subscription Shares, the Placement Shares and Creditors' Shares (if any) will be granted, or (e) the conditions precedent to the Restructuring pursuant to the Restructuring Agreement have been or will be fulfilled, or (f) Closing will take place. Trading of the Shares has been suspended since 2 July 2020 and will remain suspended until further notice.

By order of the Board  
**Samson Paper Holdings Limited**  
(Provisional Liquidators Appointed)  
(For Restructuring Purposes Only)  
**Choi Wai Hong, Clifford**  
*Executive Director*  
**Lau Wai Leung, Alfred**  
*Executive Director*



**SAMSON PAPER HOLDINGS LIMITED**

**森信紙業集團有限公司\***

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

(Incorporated in Bermuda with limited liability)

**(Stock Code: 731)**

31 December 2021

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) PROPOSED RESTRUCTURING OF THE GROUP, INVOLVING,**  
**(A) CAPITAL REORGANISATION;**  
**(B) SUBSCRIPTION;**  
**(C) GROUP REORGANISATION;**  
**(D) PLACEMENT;**  
**(E) LISTCO SCHEME;**  
**(F) UPPSD BANKRUPTCY REORGANISATION; AND**  
**(G) RESUMPTION;**  
**(2) WHITEWASH WAIVER;**  
**(3) SPECIAL DEALS; AND**  
**(4) THE PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS**

I refer to the circular of the Company dated 31 December 2021 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

I have been appointed by the Board as the member of the Independent Board Committee to consider the terms of the Restructuring Agreement and the transactions contemplated therein (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions and to advise you as to whether, in my opinion, the terms of the Restructuring Agreement and the transactions contemplated therein, the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and as to voting. Dakin Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Restructuring Agreement and

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the Letter from the Independent Financial Adviser on pages 119 to 176 of the circular.

I also wish to draw your attention to (i) the letter from the Board and (ii) the additional information set out in the appendices to the circular.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser, I consider that the terms of the Restructuring Agreement and the transactions contemplated therein (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Restructuring Agreement and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions.

Yours faithfully,  
Member of the Independent Board Committee  
**Mr. Leung Vincent Gar-gene**  
*Independent non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from Dakin Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and transaction contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions (including the Proposed Caps) prepared for the purpose of inclusion in this circular.*



**DAKIN CAPITAL LIMITED**

Suite 3509, 35/F,  
Tower 2, Lippo Centre,  
89 Queensway,  
Hong Kong

31 December 2021

*To: the Independent Board Committee and  
the Independent Shareholders of Samson Paper Holdings Limited*

Dear Sirs,

- (1) PROPOSED RESTRUCTURING OF THE GROUP, INVOLVING,**  
**(A) CAPITAL REORGANISATION;**  
**(B) SUBSCRIPTION;**  
**(C) GROUP REORGANISATION;**  
**(D) PLACEMENT;**  
**(E) LISTCO SCHEME;**  
**(F) UPPSD BANKRUPTCY REORGANISATION; AND**  
**(G) RESUMPTION;**  
**(2) WHITEWASH WAIVER;**  
**(3) SPECIAL DEALS; AND**  
**(4) PAPERBOARD SALES CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the transaction contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions (including the Proposed Caps), the details of which are set out in the letter from the Board (the “**Letter from the Board**”) in this circular issued by the Company to the Shareholders dated 31

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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December 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in this Circular unless the context requires otherwise.

Trading in the Existing Shares has been halted since 2 July 2020 pending the release by the Company of an announcement in relation to its audited annual results for the year ended 31 March 2020. As a result of the suspension of trading of the Existing Shares, the repayment obligations of certain indebtedness of the Group had been accelerated by certain creditors and the Group was unable to meet the repayment obligations. As at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million, comprising of claims arising from guarantee granted by the Company to bank creditors and a supplier in relation to the indebtedness of the subsidiaries of the Company, and amounts due to Group companies.

To facilitate a restructuring of the Company’s indebtedness, the Company filed the Petition, together with an application for the appointment of joint and several provisional liquidators to the Company on a “light touch” basis for restructuring purposes.

On 24 July 2020, Bermuda Court ordered that the JPLs be appointed to the Company, for the purpose of, *inter alia*, formulating, proposing and implementing a restructuring plan of the indebtedness of the Company.

UPPSD, one of the Company’s subsidiary in the PRC engaging in the paper manufacturing business also faced increasing liquidity pressure. Due to the shortage of cash flow, UPPSD defaulted repayment on various debts, following which creditors of UPPSD had taken various legal actions including applying to the PRC Court to freeze bank accounts of UPPSD. As a result, production of the manufacturing facility of UPPSD was suspended in the third quarter of 2020, and various banks had withdrawn facilities made available to UPPSD.

In view of the limited financial resources made available to the Group, and after considering the respective financial position and working capital requirement of various segments of the Group and feedback from parties potentially interested in the restructuring of the Group, the Board and the JPLs consider it appropriate to focus on the paper manufacturing business of the Group which is carried out by UPPSD and to wind down or dispose of the remaining businesses of the Group. The Group and the JPLs then identified interim financing to support the operations of UPPSD and discussed with various potentially interested parties (including Xiamen C&D Paper and Zhejiang Xinshengda) to restructure the indebtedness of the Group, including UPPSD.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to help UPPSD revive its operation, provide and ring-fence its working capital for its ongoing manufacturing activities as well as to preserve the operational value of UPPSD, and to assist UPPSD in keeping the jobs of over 900 employees, Xiamen C&D Paper and Shandong Herun (a company wholly owned by Mr. Li Shengfeng, the majority ultimate beneficial owner of Zhejiang Xinshengda), with the support from the local government, agreed to jointly operate the assets of UPPSD on an entrusted basis while they were still in an early stage of considering whether to participate in the restructuring of the Group, including UPPSD. On 24 October 2020, UPPSD, Xiamen C&D Paper and Shandong Herun entered into the Entrusted Operation Agreement (as amended and supplemented by the Supplemental Agreement to the Entrusted Operation Agreement), under which, Xiamen C&D Paper and Shandong Herun formed their joint venture company, namely Shandong Bairun, a special purpose vehicle, in November 2020 to carry out manufacturing operation for UPPSD. For details of the principal terms of the Entrusted Operation Agreement (as amended and supplemented by the Supplemental Agreement to the Entrusted Operation Agreement), please refer to the sub-paragraph headed “Major terms of the Entrusted Operation Agreement” under the paragraph headed “Background of the Restructuring” in the Letter from the Board.

On 23 December 2020, UPPSD was informed by the PRC Court, that a bankruptcy application was filed by Weifang Red Automation Equipment Co., Ltd\* (濰坊瑞德自動化設備有限公司), a creditor and an equipment provider of UPPSD, against UPPSD. UPPSD filed an objection letter to the PRC Court against the bankruptcy application.

On 30 December 2020, UPPSD received a civil judgement issued by the PRC Court advising that the bankruptcy application was accepted.

In the meantime, the Company and the JPLs continued discussions with various interested parties, including Xiamen C&D Paper and Zhejiang Xinshengda, on the potential restructuring of the Group. Subsequently, on 13 April 2021, the Company, the JPLs, Xiamen C&D Paper and Zhejiang Xinshengda entered into the Term Sheet with details set out in the Company’s announcement dated 13 April 2021.

On 19 January 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into the Supplemental Agreement to the Entrusted Operation Agreement which extended the term of the Entrusted Operation was extended to 15 March 2022.

On 13 April 2021, UPPSD made an application to the PRC Court to convert the bankruptcy proceeding into a bankruptcy reorganisation with a view to facilitating a holistic restructuring of the Group involving the Company and UPPSD.

On 20 April 2021, the PRC Court approved the conversion of the bankruptcy proceeding of UPPSD into a bankruptcy reorganisation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 23 April 2021, the UPPSD Bankruptcy Administrator convened the first creditors' meeting of UPPSD, at which the UPPSD Bankruptcy Administrator had, *inter alia*, confirmed the claims filed by the creditors against UPPSD.

On 29 July 2021, the UPPSD Bankruptcy Administrator convened the second creditors' meeting of UPPSD, at which the UPPSD Bankruptcy Reorganisation plan was duly approved by the creditors and shareholders of UPPSD.

On 30 July 2021, the Company, the JPLs, the Investor, Xiamen C&D Paper, Zhejiang Xinshengda and Shandong Bairun entered into the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) in relation to the proposed Restructuring, which includes, (i) the Capital Reorganisation; (ii) the Subscription; (iii) the Group Reorganisation; (iv) the Placement; (v) the Listco Scheme; (vi) the UPPSD Bankruptcy Reorganisation; and (vii) the Resumption.

On 31 July 2021, the UPPSD Bankruptcy Administrator applied to the PRC Court for its approval of the UPPSD Bankruptcy Reorganisation plan, and the PRC Court approved the same with effect from 1 August 2021. Following the PRC Court's approval of the UPPSD Bankruptcy Reorganisation plan, the Entrusted Operation Agreement was terminated and UPPSD had resumed its own operation without the Entrusted Operation. On 1 August 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into an agreement of termination to the Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement, pursuant to which the Entrusted Operation was terminated and UPPSD carries on its business operation on its own since 1 August 2021.

On 29 September 2021, after completion of implementation of the UPPSD Bankruptcy Reorganisation plan, the UPPSD Bankruptcy Administrator applied to the PRC Court for confirmation of completion of implementation of the UPPSD Bankruptcy Reorganisation plan and verdict on the termination of the UPPSD's Bankruptcy Reorganisation proceedings. On 11 October 2021, the PRC Court issued a verdict confirming the completion of implementation of the UPPSD's Bankruptcy Reorganisation plan, and ordered the termination of UPPSD's Bankruptcy Reorganisation proceedings with effect from 11 October 2021. For details of the principal terms of the UPPSD Bankruptcy Reorganisation, please refer to the paragraph headed "6. UPPSD Bankruptcy Reorganisation" in the Letter from the Board.

As the Subscription Shares, the Placement Shares and the Creditors' Shares will not be issued under the authority of currently available general mandate granted by the Shareholders to the Directors, and instead will be allotted and issued under the Specific Mandates to be obtained at the SGM, the allotment and issue of such New Shares is subject to the Independent Shareholders' approval.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placings that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. The Subscription, the Placement and the issue of the Creditors' Shares in aggregate will result in a theoretical dilution effect of approximately 88.55%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules. However, the Company is of the view that there are exceptional circumstances for the Company having considered the adverse financial position of the Company.

As disclosed in the paragraph headed "Background of the Restructuring" in the Letter from the Board, (a) the Company filed with the Bermuda Court on 18 July 2020, the Petition, together with an application for the appointment of joint and several provisional liquidators to the Company on a "light touch" basis for restructuring purposes; and (b) as at 31 March 2021, based on the available books and records of the Company, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million, comprising of claims arising from guarantees granted by the Company to bank creditors and a supplier in relation to the indebtedness of the subsidiaries of the Company, and amounts due to Group companies. Given the above, the Group is currently in financial difficulties. Therefore, the Subscription, the allotment and issue of the Creditors' Shares and the Placement (if any), which form part of the rescue proposal of the Company, are essential to the Resumption, and the Company considers there are exceptional circumstances for the Company to undertake the Subscription, the Placement and the Listco Scheme (if any) which in aggregate would result in a theoretical dilution effect of over 25%.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, the Placement Shares and the Creditors' Shares.

As at the date of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the Latest Practicable Date, the Concert Party Group does not hold any Shares. Upon the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares at Closing and assuming that none of the Preference Shares have been converted, the Investor will be interested in a maximum of 990,220,583 New Shares, representing approximately 70.66% of the then issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares. As such, the Investor would be required to make an unconditional mandatory general offer for all the issued Shares (not already owned or agreed to be acquired by the Concert Party Group) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In this regard, the Investor has made an application to the Executive for the Whitewash Waiver to relieve them from their obligation to make a mandatory general offer as a result of the acquisition of Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the Whitewash Waiver and the transactions contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) being separately approved by at least 75% and more than 50% of the votes cast by the Independent Shareholders at the SGM by way of poll, respectively, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. As the shareholding of the Investor will exceed 50% of the issued share capital of the Company following the completion of the Restructuring, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

The Whitewash Waiver may or may not be granted by the Executive. Completion of the Restructuring is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Restructuring will not proceed. The Company notes that the Executive may not grant the Whitewash Waiver if the Restructuring does not comply with applicable rules and regulations. The Company is not aware of any matters that will result in the Restructuring not being compliant with any applicable rules and regulations. Nevertheless, the implementation of UPPSD Bankruptcy Reorganisation plan has completed independently from the other transactions contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) with effect from 11 October 2021.

Based on the records available to the Company, as at the Latest Practicable Date, DaiEi holds 20,000,000 Shares, representing approximately 1.8% of the issued ordinary share capital of the Company. Based on the records available to the Company, DaiEi is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Listco Scheme taking effect, DaiEi may also be a Scheme Creditor. If the claim of DaiEi is admitted by the Scheme Administrators, DaiEi will be entitled to the Payment to DaiEi under the Listco Scheme. As the Payment to DaiEi under the Listco Scheme is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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During the UPPSD Bankruptcy Reorganisation proceeding, DaiEi as a creditor of UPPSD, claimed an amount of RMB382,621.59 owed by UPPSD to it. As a creditor with unsecured claim of UPPSD, according to the terms of the UPPSD Bankruptcy Reorganisation plan and the advice from the Directors, DaiEi is entitled to receive the payment in the following manner:

<b>Repayment schedule for DaiEi's claim under UPPSD Bankruptcy Reorganisation</b>	<b>Amount (RMB) (approximate)</b>
Total claim	(a) <u><u>382,621</u></u>
First Instalment Payment	
— Fixed amount	(b) 200,000
— 20% of the balance of the remaining amount after deducting the fixed amount of RMB200,000 ( <i>Note 1</i> )	<u>36,525</u>
	(c) <u>236,525</u>
First anniversary date of the First Instalment Payment ( <i>Note 2</i> )	36,524
Second anniversary date of the First Instalment Payment ( <i>Note 2</i> )	36,524
Third anniversary date of the First Instalment Payment ( <i>Note 2</i> )	36,524
Fourth anniversary date of the First Instalment Payment ( <i>Note 2</i> )	<u>36,524</u>
	(d) <u>146,096</u>
	(c) + (d) <u><u>382,621</u></u>

*Notes:*

1. Formula: ((a) – (b)) x 20%
2. Formula: ((a) – (c))/4

As shown in the above table, DaiEi is entitled to receive a total of approximately RMB236,525 as the First Instalment Payment, and four subsequent instalments in aggregate of approximately RMB146,096. DaiEi's entitlement for the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation originated from its capacity as a creditor of UPPSD with unsecured claim of UPPSD pursuant to a sale and purchase contract dated 19 March 2020 and entered into by and between DaiEi as seller and UPPSD as buyer for purchase of certain amount of recycled liner board in rolls for a total purchase price of US\$60,000 (which approximately equals to RMB382,621.59), which has been verified and confirmed by the UPPSD Bankruptcy Administrator during the UPPSD Bankruptcy

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Reorganisation proceeding. Pursuant to the Letter from the Board, as at the Latest Practicable Date, the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation has been made. As the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code.

DaiEi is a creditor of the Company. If admitted as a Scheme Creditor of the Company by the Scheme Administrators, DaiEi has a right to (i) receive the Creditors' Shares in their own names or through CCASS (in proportion to its claim adjudicated by the Scheme Administrators); or (ii) receive cash to be realised from the disposal of the relevant Creditors' Shares held by the SchemeCo for the benefits of DaiEi. In the latter case, the SchemeCo has the right (exercisable by the Scheme Administrators in their absolute discretion) to sell the relevant Creditors' Shares on DaiEi's behalf, either (i) in the open market at the market price or (ii) by instructing the Placing Agent for Placing Out one or more times during the Placing Out Period to place such number of Creditors' Shares to Places and, given the Price Protection will be in place, realise such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares pursuant to the Placing Agreement for Placing Out. As the Price Projection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, is not extended to all the other Shareholders, such Price Protection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, constitutes a special deal under Rule 25 of the Takeovers Code.

As such, each of Special Deal I, Special Deal II and Special Deal III requires consent by the Executive. An application has been made to the Executive for the consent to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating in its opinion that the respective terms of the Special Deals are fair and reasonable; and (ii) approval of the Special Deals by the Independent Shareholders at the SGM, in which DaiEi, any creditors of the Company, any creditors under the UPPSD Bankruptcy Reorganisation and their respective associates and parties acting in concert with any of them, who is a Shareholder will be required to abstain from voting in respect of the resolutions to approve the Special Deals. Save as disclosed above in this paragraph, as at the Latest Practicable Date, none of the creditors of the Company or creditors of UPPSD and their respective ultimate beneficial owners is a Shareholder. As stated in the Letter from the Board, unless consents to the Special Deals by the Executive are obtained and the resolutions relating to the Special Deals have been approved by the Independent Shareholders, the Restructuring and all the underlying transactions will not proceed, other than the implementation of the UPPSD Bankruptcy Reorganisation plan which has been completed as at the date of this Circular.

After Closing, the Investor will become a controlling Shareholder and a connected person of the Company. As stated in the Letter from the Board, the Investor is indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively. Accordingly, Xiamen C&D Paper or any subsidiary of Xiamen C&D Paper will become an associate of the Investor, and therefore, a connected person of the Company. After Closing, UPPSD will continue to sell the Paperboard Products to Xiamen C&D Paper or its subsidiary. As such, on 28 December 2021, UPPSD (as vendor) and Xiamen C&D Paper (as

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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purchaser) entered into the Paperboard Sales Framework Agreement to govern the contractual relationship for Paperboard Sales between UPPSD and Xiamen C&D Paper Group.

Accordingly, it is expected that after Closing, the Paperboard Sales will constitute non-exempted continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising an independent non-executive Director, namely Mr. Leung Vincent Gar-gene, has been formed to advise the Independent Shareholders on whether the terms of the proposed transactions, including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation, the Resumption and the grant of the Specific Mandates contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Whitewash Waiver, the Special Deals and the Paperboard Sales Framework Agreement (including the Proposed Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser.

### OUR INDEPENDENCE

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. During the past two years, we did not act as financial adviser or independent financial adviser to the other transactions of the Company and the Investor. We are independent from, and are not associated with the Company, the Investor, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholder, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions (including the Proposed Caps) to the Independent Board Committee and the Independent Shareholders in accordance with Rule 2.6 of the Takeovers Code.

### BASIS FOR OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in this Circular and the representations made to us by the Directors, the directors of the Investor, namely Mr. Cheng Dongfang, Mr. Shi Yaofeng and Mr. Li Shengfeng (the “**Directors of the Investor**”), the directors of Xiamen C&D Corporation, namely Huang Wenzhou, Wang Qin, Pan Ziwan, Zhao Chengmin, Lin Yiqiang, Chen Dongxu, Zhao Shenghua and Shi Zhen (the “**Directors of Xiamen C&D Corporation**”) and the sole director of Zhejiang Xinshengda, namely Mr. Li Shengfeng (the “**Director of Zhejiang Xinshengda**”). We have assumed that all statements, information and representations provided by the Directors, the Directors of the Investor, the Directors of Xiamen C&D Corporation and the Director of Zhejiang Xinshengda, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors, the Directors of the Investor, the Directors of Xiamen C&D Corporation and the Director of Zhejiang Xinshengda in this Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in this Circular, or the reasonableness of the opinions expressed by the Directors, the Directors of the Investor, the Directors of Xiamen C&D Corporation and the Director of Zhejiang Xinshengda and/or its advisers, which have been provided to us.

Your attention is drawn to the responsibility statements as set out in the paragraph headed “1. Responsibility statement” under the section headed “Appendix III General information” in this Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash

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Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions (including the Proposed Caps). Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context. Shareholders will be notified of any material changes to such statements, information, opinions and/or representation as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company in which event this letter shall be amended and updated.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation with regard to the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the transactions contemplated thereunder (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates, the Whitewash Waiver, the Special Deals and the Paperboard Sales Continuing Connected Transactions (including the Proposed Caps), we have taken into account the following principal factors and reasons:

#### **1. Information of the Group**

As stated in the Letter from the Board, the Company was incorporated on 10 July 1995 in Bermuda and was registered as a non-Hong Kong Company in Hong Kong on 27 December 1995. The Company's shares were listed on the Main Board of the Stock Exchange (stock code: 731.HK) on 1 December 1995.

The Company is an investment holding company. The Group is/was principally engaged in (i) paper manufacturing business; (ii) paper trading business including sale of paper and cardboard, office supplies and consumables and supplies for paper manufacturing; (iii) FMCG business; (iv) PID business; and (v) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. The Group's operations are/were mainly based in Hong Kong and the PRC. For detailed information of the Company and the Group, please refer to the paragraph headed "Information about the Company and the Group" in the Letter from the Board. Upon completion of the Group Reorganisation, the Retained Group will principally engage in the paper manufacturing business.

Trading in the Existing Shares on the Stock Exchange has been suspended since 2 July 2020.

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Based on the audited consolidated financial statements of the Group, (i) for the year ended 31 March 2020, the Group recorded turnover of approximately HK\$5,737 million and recorded a net loss of approximately HK\$543 million; and (ii) as at 31 March 2020, the Group reported a net assets position of approximately HK\$1,500 million, with total assets of approximately HK\$5,859 million and total liabilities of approximately HK\$4,359 million.

Based on the audited consolidated financial statements of the Group, as at 31 March 2021, (i) the book value of the Group's total assets is around HK\$1,097 million and the book value of its total liabilities is around HK\$3,275 million, resulting in net liabilities of around HK\$2,178 million; and (ii) the book value of the Company's total assets is around HK\$250 million and the book value of its total liabilities is around HK\$2,303 million, resulting in net liabilities of around HK\$2,053 million. Thus, both the Group and the Company are balance sheet insolvent.

As advised by the Directors, the liabilities of the Company mainly comprise of claims of unsecured creditors arising from guarantees granted by the Company to four of its subsidiaries, namely, (i) SMHK (including a syndicated loan where the Company and certain of its subsidiaries acted as guarantors); (ii) SG Finance Ltd (involving a club loan where the Company and certain of its subsidiaries acted as guarantors); (iii) UPPI; and (iv) UPPSD. Pursuant to the section headed "Appendix I Financial information of the Group" in this Circular, (i) as at 31 March 2020, the Group's total assets, total liabilities and net assets were approximately HK\$5,859 million, HK\$4,359 million and HK\$1,500 million respectively; and (ii) as at 31 March 2021, the Group's total assets, total liabilities and net liabilities were approximately HK\$1,097 million, HK\$3,275 million and HK\$2,178 million respectively. As advised by the Directors, the decrease in the Group's total assets from approximately HK\$5,859 million as at 31 March 2020 to approximately HK\$1,097 million as at 31 March 2021 and the decrease in the Group's total liabilities from approximately HK\$4,359 million as at 31 March 2020 to approximately HK\$3,275 million as at 31 March 2021 were mainly due to the deconsolidation of the UPPSD and the impairment recognised during the year ended 31 March 2021. Therefore, there was a deterioration from the Group's net assets of approximately HK\$1,500 million as at 31 March 2020 to the Group's net liabilities of approximately HK\$2,178 million as at 31 March 2021.

Following the suspension of trading of the Shares on 2 July 2020, a number of banks had withdrawn the banking facilities previously provided to the Group and demanded repayment to outstanding balance. Coupled with actions of creditors including application to courts to freeze bank accounts of the Group, each of the Group's business segments faced severe working capital challenges, affecting their ability to make new purchases and to maintain the usual operations. Given the acute financial position of the Group, we concur with the view of the Directors that it is crucial to obtain new funding to repay indebtedness of the Group so as to continue the existing paper manufacturing business and to restore the financial strength of the Group.

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In addition, according to Note 3 to Rule 2 of the Takeovers Code, we would like to draw the attention to the Independent Shareholders that the Auditors has issued disclaimers of opinion or conclusion on the consolidated financial statements of the Group for each of the year ended 31 March 2020 and 31 March 2021 (the “**Audit Qualifications**”). As stated in the Letter from the Board, such disclaimers of opinion or conclusion include:

- (a) material uncertainties relating to going concern basis;
- (b) insufficient accounting records of certain subsidiaries of the Group in paper trading segment;
- (c) unavailability of accounting records of certain subsidiaries of the Group in property development and investment segment;
- (d) unavailability of accounting records of certain subsidiaries of the Group in others segment;
- (e) unreconciled differences in balances between group companies; and
- (f) opening balances and the comparative information.

For detailed information of each of the basis of disclaimer, relevant financial year or period and action taken or to be taken, please refer to the paragraph headed “The audit qualifications” in the Letter from the Board.

Nonetheless, the Auditors have agreed with the description in relation to the rectification of the audit qualifications set out in the paragraph headed “The audit qualifications” in the Letter from the Board. Having considered the above, upon Closing and in the absence of any unforeseen circumstances, we concur with the Directors’ view that the above Audit Qualifications should not materially affect the Group’s financial results and operation.

### **2. Information of the Investor**

As stated in the Letter from the Board, the Investor is a company incorporated in British Virgin Islands with limited liability, indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively.

According to the Letter from the Board, (i) Xiamen C&D Paper is a limited liability company incorporated in the PRC; (ii) Xiamen C&D Paper is a wholly-owned subsidiary of Xiamen C&D Inc, a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600153); and (iii) as at the Latest Practicable Date, the largest shareholder of Xiamen C&D Inc. is Xiamen C&D Corporation Limited, which holds approximately 47.4% of the issued share capital of Xiamen C&D Inc. (being the only shareholder of Xiamen C&D Inc. interested in 10% or more of its equity interests). and is in turn wholly owned by Xiamen SASAC. Pursuant to the Letter from the Board and according to the Directors of the Investor, Xiamen C&D Paper (i) is

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principally engaged in sourcing and supplying of forest products such as paper, pulp, wood chips and household paper products; (ii) has an annual sales volume of over 9 million tons of paper products and paper pulps and a sales network comprising over 5,000 customers in the PRC and overseas; and (iii) is one of the largest wood pulp supply chain distributors in the PRC which has annual sales volume of the domestic and import wood pulp of over 4 million tonnes.

According to the Letter from the Board, Zhejiang Xinshengda is a limited liability company incorporated in the PRC and is owned by Mr. Li Shengfeng and Ms. Lu Chengying as to 99% and 1% respectively. Pursuant to the Letter from the Board and according to the Directors of the Investor, (i) Zhejiang Xinshengda is principally engaged in manufacturing and trading of paper, chemical products, plastic products and hardware products; (ii) Zhejiang Xinshengda group has tapped into the paper manufacturing and distribution industry in the southeast Asia since 2018 and established its own production arm for both recycled paper pulp and industrial packaging paper in Malaysia; (iii) Mr. Li Shengfeng is the founder of Zhejiang Xinshengda and has over 16 years of management experience in the manufacturing and trading industry; and (iv) Ms. Lu Chengying is also a founding member of Zhejiang Xinshengda and was responsible for the financial management of Zhejiang Xinshengda until her retirement in 2019.

According to the Letter from the Board, Shandong Bairun (i) is a limited liability company incorporated in the PRC, which is owned by Xiamen C&D Paper and Shandong Herun (a company wholly owned by Mr. Li Shengfeng, the majority ultimate beneficial owner of Zhejiang Xinshengda) as to 55% and 45% respectively; and (ii) is principally engaged in trading of general goods such as paper and pulp.

In view of the financial capability and industry experience and resources of Xiamen C&D Paper and Zhejiang Xinshengda, the Board and the JPLs consider that the entering into the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) with the Investor will facilitate a holistic restructuring to (i) resolve the indebtedness of the Group; (ii) revive and grow the existing paper manufacturing business of the Group through leveraging the industry experience and resources of Xiamen C&D Paper and Zhejiang Xinshengda; and (iii) satisfy the Resumption conditions imposed on the Company by the Stock Exchange. According to the Directors, the Resumption guidance set out by the Stock Exchange of (i) having the Petition (or winding-up order, if made) against the Company withdrawn or dismissed; and (ii) re-comply with Rules 3.05, 3.10(1), 3.21 and 3.25 of the Listing Rules will be satisfied through the proposed Restructuring.

According to the Letter from the Board, (i) upon Closing, the Excluded Subsidiaries which were principally engaged in paper trading business, FMCG business, PID business and other business including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services will be transferred to the SchemeCo to repay the debts owed to the Scheme Creditors, and cease to be the subsidiaries or associates of the Company; (ii) it is the intention of the Investor that the Retained Group will continue

and focus on the existing paper manufacturing business; and (iii) following the Closing, the Investor intends that the Company will continue to seek new business opportunities to improve its profitability and business prospects, consolidate or streamline its existing business, enhance its future business development, and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise.

Having considered (i) the principal activities of the Retained Group, Xiamen C&D Paper and Zhejiang Xinshengda, which is in the paper product market; (ii) the outlook of paper product market in the PRC remains positive as discussed in the paragraph headed “4. Overview of paper product market in the PRC” below in this letter; and (iii) the contribution of industry experience and resources by Xiamen C&D Paper and Zhejiang Xinshengda would create a synergy effect with the Retained Group, we consider that the intention of the Investor regarding the business development of the Retained Group after the Closing as mentioned above is in the interest of the Company and Shareholders as a whole.

### **3. Reasons for the proposed Restructuring**

For the implementation of the Resumption, on 30 July 2021, the Company, the JPLs, the Investor, Xiamen C&D Paper, Zhejiang Xinshengda and Shandong Bairun entered into the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) in relation to the proposed Restructuring, which includes, (i) the Capital Reorganisation; (ii) the Subscription; (iii) the Group Reorganisation; (iv) the Placement; (v) the Listco Scheme; (vi) the UPPSD Bankruptcy Reorganisation; and (vii) the Resumption.

The Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation, and the Resumption form part of the Restructuring under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement). Pursuant to the Letter from the Board, Closing is subject to fulfillment of certain conditions precedent. For details of the conditions precedent of the Closing, please refer to the paragraph headed “Conditions precedent to the Closing” in the Letter from the Board. The Capital Reorganisation is expected to be completed (i) prior to the completion of the Subscription, the Group Reorganisation, the Placement, and the taking effect of the Listco Scheme, and (ii) prior to the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors’ Shares at the Closing. Completion of the Subscription, the Group Reorganisation, the Placement, and the taking effect of the Listco Scheme shall be inter-conditional with one another and take place simultaneously at the place and on such date as provided in the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), which shall in any event take place on or before the date of the Resumption. While the Closing is conditional to the completion of the UPPSD Bankruptcy Reorganisation, the completion of UPPSD Bankruptcy Reorganisation is not inter-conditional with, and may complete independently from other transactions contemplated under the

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Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement). As at the Latest Practicable Date, the implementation of the UPPSD Bankruptcy Reorganisation plan has been completed on 29 September 2021 and the UPPSD Bankruptcy Reorganisation proceeding has been terminated by the PRC Court on 11 October 2021.

The Capital Reorganisation is part and parcel of the Restructuring. As stated in the Letter from the Board, the carrying value of the Company has been substantially depleted by unaudited accumulated losses of the Company of approximately HK\$2,730 million and has resulted in net liabilities as at 31 March 2021. The credit of approximately HK\$108,000,000 arising from the Capital Reduction and the credit arising from the Share Premium Cancellation in the amount of approximately HK\$161,000,000 will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the laws of Bermuda and the Bye-Laws. Also, the Directors consider that the main purpose of the Capital Reorganisation is to (i) apply the credit arising from the Capital Reduction and the Share Premium Cancellation to set off the accumulated losses of the Company; and (ii) facilitate the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares. For details of the Capital Reorganisation, please refer to the paragraph headed "1. The Capital Reorganisation" in the Letter from the Board.

Prior to completion of the UPPSD Bankruptcy Reorganisation, UPPSD was indirectly owned as to 80% by the Company and 20% by KPP. As stated in the Letter from the Board, as at the Latest Practicable Date, KPP held no interest in UPPSD and SPV2 became the sole registered shareholder of UPPSD. The Excluded Subsidiaries were principally engaged in (i) paper trading business; (ii) FMCG business; (iii) PID business; and (iv) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. Upon completion of the Group Reorganisation, the Excluded Subsidiaries will cease to be subsidiaries or associates of the Company. As confirmed by the Directors, upon completion of the Group Reorganisation, the Retained Group will only comprise the Company and its three wholly-owned subsidiaries, being SPV1, SPV2 and UPPSD. For details of the steps taken in the Group Reorganisation, the Group's structure chart before the Group Reorganisation and the Retained Group's structure chart immediately after completion of the Group Reorganisation, please refer to the paragraph headed "3. The Group Reorganisation" in the Letter from the Board.

Pursuant to the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Company propose to present to its Scheme Creditors the Listco Scheme to fully discharge all the claims from the Scheme Creditors in the total amount of approximately HK\$3,046 million upon the taking effect of the Listco Scheme. Based on the available books and records of the Company, as at 31 March 2021, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million which is indicative only and the payment to the claims of the creditors of the Company will be subject to the arrangement of the Listco Scheme. As confirmed by the Directors, after

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reviewing the notices of claim received, the books and records recovered by the JPLs and the list of Shareholders of the Company, as at the Latest Practicable Date, other than DaiEi, none of the Scheme Creditors holds any Shares. The Listco Scheme has been approved by the Hong Kong Court on 28 October 2021.

The SchemeCo, shall accept and assume an equivalent liability in place of the Company in respect of the claims of creditors of the Company, and in return, the Scheme Creditors will be entitled to receive dividends (from the realisation of the assets of the SchemeCo) pursuant to the Listco Scheme in full and final settlement to the Scheme Creditors' claims against the SchemeCo. The Scheme Administrators shall incorporate the SchemeCo to hold and realise assets of the SchemeCo for distribution to the Scheme Creditors and settle the costs and expenses arising from the implementation of the Listco Scheme in accordance with the terms of the Listco Scheme. All the Excluded Subsidiaries will be transferred to the SchemeCo. For details of other principal terms of the Listco Scheme, please refer to the paragraph headed "5. The Listco Scheme" in the Letter from the Board.

We noted in the Letter from the Board, the gross proceeds from the Subscription and the Placement are expected to be approximately HK\$119.9 million and HK\$6.8 million respectively. As stated in the Letter from the Board, the aggregate gross proceeds from the Placement and the Subscription of approximately HK\$126.7 million will be utilised as to (i) approximately HK\$91.7 million for discharging the debts of the Company under the Listco Scheme; and (ii) approximately HK\$35 million for paying the Restructuring Expenses.

As stated in the Letter from the Board and according to the Directors, (i) upon completion of the Group Reorganisation, the Retained Group will only comprise the Company and its three wholly-owned subsidiaries, being SPV1, SPV2 and UPPSD; and (ii) upon the taking effect of the Listco Scheme, all the claims of the Scheme Creditors in the total amount of approximately HK\$3,046 million shall be fully discharged under the Listco Scheme and all the Excluded Subsidiaries will be transferred to the SchemeCo.

As at the Latest Practicable Date, the Stock Exchange has imposed on the Company of the conditions of the Resumption. Please refer to the paragraph headed "7. The Resumption" in the Letter from the Board for details of the resumption conditions. If the Company fails to satisfy all the above conditions to the Resumption imposed by the Stock Exchange by 1 January 2022, the Listing Division of the Stock Exchange may recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing status. In this regard, the Company is taking various steps to satisfy the Resumption conditions, including (i) appointment of the Auditors as the auditor of the Company for the audit of the Company's financial statements for the years ended 31 March 2020 and 31 March 2021; (ii) appointment of Grant Thornton to conduct an independent investigation on the audit issues and announcement by the Company on 25 May 2021 of the findings of Grant Thornton and remedial actions taken; (iii) appointment of Pan China as its internal control consultant to conduct a comprehensive review of the internal control systems and

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procedures of the Group and to make recommendations accordingly; (iv) sanction of the Listco Scheme by the Hong Kong Court on 28 October 2021; and (v) submission of the Resumption Proposal to the Stock Exchange on 20 September 2021. As at the Latest Practicable Date, the status of fulfillment of each conditions to the Resumption are set out below:

- (a) the former auditors of the Company, PricewaterhouseCoopers, have raised the following audit issues in relation to the Group's consolidated financial statements for the year ended 31 March 2020:
  - (i) transactions and balances with two suppliers which are connected persons at subsidiary level of the Company by virtue of their holding company's interest as a substantial shareholder in UPPSD (prior to the completion of the implementation of the Bankruptcy Reorganisation of UPPSD);
  - (ii) classification of accounts payable of HK\$694,567,000 in aggregate due to the above-mentioned suppliers as non-current liabilities as at 31 March 2020 and execution of two purported deferred payment agreements;
  - (iii) the adjustment of prepayments amounting to HK\$570,558,000 which were initially recorded as repayment of accounts payable to the above-mentioned suppliers;
  - (iv) the unreconciled differences in balances between Group companies in the aggregate amount of HK\$580,643,000 which were adjusted to account for as addition to property, plant and equipment and other receivables of HK\$25,801,000 and HK\$554,842,000, respectively; and
  - (v) the likely non-fulfillment of a financial covenant ratio requirement of the Group.

The Company has taken a series of remedial actions in order to improve the internal control of the Group, and address and mitigate the re-occurrence of such audit issues raised by the former auditors of the Company, including, among others, (i) cessation of operation and winding down and/or liquidation of paper trading business; (ii) appointment of Pan China as internal control consultant to strengthen the internal control of the Group; and (iii) resignation of the then executive directors and CFO at the relevant time and appointment of qualified professionals as new Directors and CFO to monitor, oversee and monitor the management and operation of the Company.

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- (b) the Company has published an announcement on 25 May 2021 on the audit issues and relevant findings by Grant Thornton and remedial actions taken. On 24 December 2021, the Company made a submission to the Stock Exchange addressing its comment letter 11 June 2021 in respect of the investigation findings of the audit issues;
- (c) the Company has published the audited financial results for the years ended 31 March 2020 and 31 March 2021, and interim results for the six-month periods ended 30 September 2020 and 30 September 2021 on 15 December 2021;
- (d) The Auditors expected that the audit qualifications set out in the paragraph headed “The audit qualifications” in the Letter from the Board will be carried forward for the year ending 31 March 2022 in relation to, (i) the gain/loss from the deconsolidation of subsidiaries of the Group during the year ending 31 March 2022 (by way of liquidation/deregistration/transfer of the subsidiaries to the SchemeCo pursuant to the terms of the Listco Scheme); (ii) profit and loss of the Excluded Subsidiaries which would be deconsolidated from the Group in the year ending 31 March 2022; and (iii) the opening balances of paper trading segment, property development and investment segment and others segment as at 31 March 2021. The Auditors agreed that in the absence of the unforeseen circumstances, the consolidated financial statements of the Company for the year ending 31 March 2023 will not carry the audit modifications;
- (e) on 10 December 2021, the Bermuda Court ordered the withdrawal of the Petition and the discharge of the JPLs conditional upon the Listco Scheme becoming effective;
- (f) since the suspension of the trading in Shares of the Company, the Company has published various announcements to keep its Shareholders and potential investors informed of the situation and development of the Company. The Company will continue to disclose other material information of the Group with an aim to keep its shareholders and potential investors informed of the situation and development of the Group in due course;
- (g) the Company submitted the Resumption Proposal to the Stock Exchange on 20 September 2021, which was supplemented by a supplemental submission dated 17 November 2021. The Company further made a submission on 8 December 2021 to address comments from the Stock Exchange regarding the supplemental submission. The Company will keep the Shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate;
- (h) the Company published an announcement on 13 December 2021 regarding the results of the internal control review conducted by Pan China, in which a summary of the key findings and remedial measures implemented by the Company were provided; and

- (i) the Company will comply with Rules 3.05, 3.10(1), 3.21 and 3.25 of the Listing Rules upon the appointment of the relevant proposed Directors.

We have considered the abovementioned latest status of fulfillment of each conditions to the Resumption and noted that (i) nothing has come to our attention that the remedial action taken to improve the internal control of the Group and mitigate the re-occurrence of the audit issues as mentioned above are not in the interest of the Company and Shareholders as a whole; (ii) the publication of an announcement on the audit issues and relevant findings by Grant Thornton and remedial actions taken provides the latest development to Shareholders on how the Company improves the internal control and protects the Company's and Shareholders' interest; (iii) the publication of audited financial results for each of the year ended 31 March 2020 and 31 March 2021 and interim results for each of the six-months ended 30 September 2020 and 30 September 2021 provide the historical financial information of the Group which are material information for Shareholders; (iv) the submission of Resumption Proposal and supplemental submission are to demonstrate the Retained Group's compliance with Rule 13.24 of the Listing Rules; and (v) the appointment of proposed Directors is to demonstrate the Retained Group's compliance with Rules 3.05, 3.10(1), 3.21 and 3.25 of the Listing Rules. We are of the view that the information provided or to be provided in fulfillment of each conditions to the Resumption can protect the Shareholders' right to know on the Company's latest development.

Having considered (i) the trading in the Existing Shares on the Stock Exchange has been suspended since 2 July 2020; (ii) as advised by the Directors, the imminent need for the Company to settle all their liabilities and claims by the Listco Scheme; (iii) the Group Reorganisation is to restructure the Company in a formal and orderly manner; (iv) the Listco Scheme is to facilitate the fully discharge of all the claims from the Scheme Creditors; (v) the fund raised by ways of the Subscription and the Placements in aggregate had been earmarked for discharging the debts of the Company under the Listco Scheme and paying the Restructuring Expenses; and (vi) the provision of information in fulfillment of each conditions to the Resumption can protect the Shareholders' right to know, we concur with the view of the Directors that the entering into the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the completion of the transactions as contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

#### **4. Overview of paper product market in the PRC**

As discussed and based on the information provided by the Directors, the Retained Group will be principally engaged in manufacturing of paper product in the PRC. To understand the market outlook of paper product in the PRC, we have researched and studied the paper product market in the PRC based on the statistics published by the National Bureau of Statistics of the PRC\* (中華人民共和國國家統計局) and the China Paper Association (中國造紙協會).

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*Statistics of gross domestic products in the PRC*

<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Compound annual growth rate</b>
<i>RMB billion</i>	<i>(%)</i>				
74,639	83,203	91,928	98,651	101,599	8.0

*Source: National Bureau of Statistics of the PRC\* (中華人民共和國國家統計局)*

As shown in above table, the gross domestic products in the PRC increased from approximately RMB74,639 billion for the year of 2016 to approximately RMB101,599 billion for the year of 2020, representing a compound annual growth rate of approximately 8.0%.

According to the Letter from the Board and the Directors, (i) the consumer market in the PRC is one of the fastest growing industries in the PRC driven primarily by its rapid economic growth; and (ii) UPPSD's coated duplex board and kraft linerboard are aimed at the packaging needs of consumer product manufacturers across a broad range of industries in the consumer market such as wine, tobacco, food, apparel, medicine, electronic products, office supplies, furniture and personal care products. We concur with the view of the Directors that the increasing trend of gross domestic products in the PRC represents an evidence to support the growth in consumer products and therefore the demand and supply of paper and board products in the PRC is benefited from the growth of overall economy.

*Statistics of output and consumption of paper and board in the PRC*

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Compound annual growth rate</b>
	<i>thousand tons</i>	<i>thousand tons</i>	<i>thousand tons</i>	<i>thousand tons</i>	<i>thousand tons</i>	<i>(%)</i>
Output of paper and board	108,550	111,300	104,350	107,650	112,600	0.9
Consumption of paper and board	104,190	108,970	104,390	107,040	118,270	3.2

*Source: China Paper Association (中國造紙協會), an association regulated by the relative department of State Council of the PRC*

As shown in the above table, the output of paper and board in the PRC generally increased from approximately 108,550 thousand tons for the year of 2016 to approximately 112,600 thousand tons for the year of 2020, representing a compound annual growth rate of approximately 0.9%. Also, the consumption of paper and board in the PRC was on a general increasing trend from approximately 104,190 thousand tons for the year of 2016 to approximately

118,270 thousand tons for the year of 2020, representing a compound annual growth rate of approximately 3.2%. However, we noted that the output and consumption of paper and board in the PRC decreased in 2018 as compared with 2017 but such situation improved in 2019 and fully rebounded in 2020. We performed our independent search and noted that since the late 2017, the PRC government has promulgated a series of restrictive policies in respect of the importation of recovered paper from overseas. On 14 December 2017, the Environmental Protection Management Regulation on Importing Recovered Paper\* (進口廢紙環境保護管理規定) was released by the Ministry of Ecology and Environment of the PRC to limit the foreign import of recovered paper. Subsequently on 2 May 2018, the General Administration of Customs of the PRC issued an urgent notice pursuant to which full unpacking and inspection and quarantine of waste materials from the U.S. has been carried out with effect from 4 May 2018. On 8 August 2018, the Ministry of Commerce of the PRC further announced the Notice of the Customs Tariff Commission of the State Council of the PRC on Adding Tariffs to Imported Goods of About US\$16 Billion from the U.S. (Announcement of the Taxation Committee [2018] No. 7)\* (國務院關稅稅則委員會關於對原產於美國約160億美元進口商品加徵關稅的公告) (稅委會公告[2018]7號) to implement a 25% tariff on imported recovered paper from the U.S. starting from 23 August 2018. For instance, the importation of recovered paper by each PRC's paper manufacturer is subject to quota pre-approved by the relevant government authority from time to time and the prevailing quality standards set by the government of the PRC.

Furthermore, as advised by the Directors, (i) recovered paper is the major raw materials used by UPPSD; (ii) since 2018, the import quota of recovered paper granted to the paper industry has been reduced, resulting in the increase in demand for domestic recovered paper produced in the PRC and the increase in price of paper and board; and (iii) due to the increase in the price of paper and board, the demand for paper and board dropped accordingly. Having considered (i) the above policies imposed by the government of the PRC affected the whole industry but not particularly to the Group; and (ii) the output and consumption of paper and board recovered for the year of 2019, we consider that such policies will not affect our view of the prospect of the Group's paper product business.

Taking into account (i) the increasing trend of gross domestic products in the PRC which represents an evidence to support the growth in consumer products in the PRC and thus demand and supply of paper and board in the PRC is benefited from the growth of overall economy; (ii) the general increasing trend of the output of paper and board in the PRC; and (iii) the general increasing trend of the consumption of paper and board in the PRC, we are of the view that the outlook of paper product market in the PRC remains positive.

## **5. Capital Reorganisation**

As at the Last Practicable Date, the authorised ordinary share capital of the Company is HK\$145,691,398.70 comprising 1,456,913,987 ordinary Existing Shares, of which 1,141,075,827 ordinary Existing Shares have been issued and fully paid. The Company also has, as at the Last Practicable Date, authorised preference share capital of HK\$14,308,601.3 comprising 143,086,013 Preference Shares, of which 132,064,935 Preference Shares have been issued and fully paid.

The Board proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation, which comprises of the Capital Reduction, the Authorised Share Capital Diminution, the Share Premium Cancellation, the Share Consolidation and the Increase in Authorised Share Capital.

Upon completion of the Capital Reorganisation, the authorised ordinary share capital of the Company shall be HK\$100,000,000 divided into 2,000,000,000 New Shares of HK\$0.05 each, of which 114,107,582 New Shares have been issued and credited as fully paid. The authorised preference share capital shall be HK\$14,308,601 divided into 143,086,013 Preference Shares of HK\$0.1 each, of which 132,064,935 Preference Shares have been issued and credited as fully paid that can be converted into 13,206,493 New Shares on a ten-to-one conversion basis.

The credit of approximately HK\$108,000,000 arising from the Capital Reduction and the credit arising from the Share Premium Cancellation in the amount of approximately HK\$161,000,000 will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the laws of Bermuda and the Bye-Laws.

Upon the Capital Reorganisation becoming effective, the New Shares shall rank *pari passu* in all respects with each other.

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will not have a material adverse effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders in the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the return of capital or cash to the Shareholders, nor will it result in any change in the relative rights of the Shareholders. Please refer to the paragraph headed “1. The Capital Reorganisation” in the Letter from the Board for further details of the Capital Reorganisation.

As stated in the Letter from the Board, the carrying value of the Company has been substantially depleted by accumulated losses of the Company of approximately HK\$2,730 million and has resulted in net liabilities as at 31 March 2021. The credit of approximately HK\$108,000,000 arising from the Capital Reduction and the credit arising from the Share Premium Cancellation in the amount of approximately

HK\$161,000,000 will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the laws of Bermuda and the Bye-Laws. In addition, completion of the Capital Reorganisation is one of the conditions precedent for the Placement and the Subscription, the proceeds of which will be used for settling the Restructuring Expenses and discharging the debts of the Company under the Listco Scheme.

Furthermore, according to the Letter from the Board, the main purpose of the Capital Reorganisation is to (i) apply the credit arising from the Capital Reduction and the Share Premium Cancellation to set off the accumulated losses of the Company, and (ii) facilitate the allotment and issue of the Subscription Shares, Placement Shares and the Creditors' Shares.

Having considered (i) the Capital Reorganisation facilitates the allotment and issue of the Subscription Shares, Placement Shares and the Creditors' Shares which are part and parcel of the Restructuring; and (ii) the completion of the Capital Reorganisation is one of the conditions precedent for the Placement and the Subscription, we are of the view and concur with the view of the Directors that the Capital Reorganisation is in the interest of the Company and the Shareholders as a whole.

## **6. The Subscription**

Pursuant to the terms and conditions of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Company shall allot and issue, and the Investor shall subscribe for 990,220,583 Subscription Shares at the Subscription Price for a total consideration of HK\$119,872,142. Upon the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares at Closing, the Subscription Shares represent approximately 70% and 70.66% of the then enlarged issued share capital of the Company in case all the Preference Shares have been converted and none of the Preference Shares have been converted respectively. For this purpose, the Company, the Investor and the JPLs have entered into the Subscription Agreement on 26 October 2021. Please refer to the paragraph headed "2. The Subscription" in the Letter from the Board for further details of the Subscription.

### ***6.1 Use of proceeds***

As disclosed in the Letter from the Board and according to the Directors, the gross Subscription Proceeds of approximately HK\$119.9 million shall be used for (i) settling the Restructuring Expenses in the amount of approximately HK\$35 million; and (ii) the remaining of the gross Subscription Proceeds of approximately HK\$84.9 million for discharging the debts of the Company under the Listco Scheme in the amount of approximately HK\$3,046 million. As stated in the Letter from the Board, the Restructuring Expenses will be paid by the Investor in advance in accordance with the terms and conditions in the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) on or prior to the

Closing and will be off-set against the total consideration payable by the Investor upon completion of the Subscription on a dollar-to-dollar basis. As advised by the Directors, as at the Latest Practicable Date, approximately HK\$24 million of the Restructuring Expenses has been paid by the Investor and the remaining of approximately HK\$11 million will be paid by the Investor on or before the date of Closing.

**6.2 Principal terms of the Subscription Agreement**

*6.2(a) The Subscription Price*

The Subscription Price, which is same as the Placement Share Price and the Issue Price of the Creditors' Shares represents:

- (i) a discount of approximately 96.68% to the theoretical closing price of HK\$3.65 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 96.61% to the average theoretical closing price of HK\$3.57 per New Share as adjusted for the effect of the Capital Reorganisation based on the average of the closing price of HK\$0.357 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 96.71% to the average theoretical closing price of HK\$3.68 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.368 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 98.90% to the Group's audited consolidated net asset value per New Share of approximately HK\$11.02 as at 31 March 2020, based on audited consolidated net asset value attributable to Shareholders of approximately HK\$1,257,709,000 as at 31 March 2020 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective;
- (v) a premium of approximately HK\$19.23 over the Group's audited consolidated net liabilities per New Share of approximately HK\$19.11 as at 31 March 2021, based on audited consolidated net liabilities attributable to the Shareholders of approximately HK\$2,180,599,000 as at 31 March 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective; and

- (vi) a premium of approximately HK\$17.39 over the Group's unaudited consolidated net liabilities per New Share of approximately HK\$17.27 as at 30 September 2021, based on the unaudited consolidated net liabilities attributable to the Shareholders of approximately HK\$1,970,776,000 as at 30 September 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective.

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Investor having considered factors including the suspension of trading of the shares of the Company, the prevailing market conditions, the financial position and prospects of the business operation of the Retained Group. The Subscription is inter-conditional with the Group Reorganisation, the Placement and the taking effect of the Listco Scheme; and the Subscription Shares, the Placement Shares and Creditors' Shares will be issued simultaneously.

We have considered, among other things, (i) the significant consolidated net liabilities position of the Group; (ii) the fact that the Company had filed with Bermuda Court on 18 July 2020, the Petition, together with the JPLs appointed to the Company; (iii) UPPSD, one of the Company's subsidiary in the PRC was in the progress of UPPSD Bankruptcy Reorganisation during the period from 23 December 2020 to 11 October 2021 and received the verdict from the PRC Court confirming the completion of implementation of the UPPSD Bankruptcy Reorganisation plan and the PRC Court's order for the termination of UPPSD Bankruptcy Reorganisation proceeding with effect from 11 October 2021; and (iv) Samson Paper Company Limited and Seng Jin Group Limited, two of the Company's subsidiaries are in the progress of liquidation as disclosed in the Company announcements dated 18 August 2020 and 23 September 2021 respectively; and (v) the Group's FMCG business and the paper trading business in Malaysia ("**Malaysia Paper Trading Business**") were disposed on 4 January 2021 and 26 February 2021 respectively to parties who are not connected person of the Company. According to the Company's announcement dated 8 April 2021, the management of the Company considered to dispose of the FMCG business and Malaysia Paper Trading Business which are the non-core or underperforming business. The Directors advised us that such disposal of the FMCG business and Malaysia Paper Trading Business can improve the working capital of the Group. These demonstrate that it is imminent to revolve the indebtedness of the Group and improve the financial position of the Company by introducing the Investor to restructure the Group.

Given that the financial position of the Group and its existing significant net liabilities; and that the Subscription and the Placement, being part and parcel of the Restructuring to raise capital so as to discharge

the debts of the Company under the Listco Scheme, we are of view that the setting of the Subscription Price at a deep discount to the closing price of the Shares is justifiable.

*6.2(b) Comparison with comparable transactions*

Notwithstanding the above, the trading of the Existing Shares was suspended since 2 July 2020, which was over one year from the Latest Practicable Date, we consider the closing price of the Shares prior to the suspension cannot reflect the current financial condition and valuation of the Company which in turn cannot provide a fair basis for the evaluation of the Subscription Price and the discount rate of approximately 96.68% on the Last Trading Day. For the purpose of providing the Independent Shareholders with a general reference for companies listed on the Stock Exchange engaged in similar transaction as those as described in this Circular, we identified and compared listed companies, the shares of which were in prolonged suspension from trading on the Stock Exchange for three months or more, provisional liquidators appointed and carried out restructuring which constitutes, among all others, subscription and/or placing of new shares, debt restructuring, application for whitewash waiver and completed the restructuring and resumed trading of its shares, from 1 January 2011 to the Latest Practicable Date.

We identify an exhaustive list of six companies (the “**Proposal Comparables**”) which met the aforesaid criteria. We noted that the restructuring proposal of the Proposal Comparables, the structure and terms thereof, including but limited to, (i) business size, financial performance and financial position; (ii) the subscription price and amount and the use of proceeds; and (iii) the background of the transaction, is unique and different from the Company. However, as information for the Independent Shareholders’ general reference purpose, we consider the Proposal Comparables are fair and reasonable.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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No.	Name of company (stock code)	Date of suspension	Date of circular	Date of resumption	Discount of subscription price to closing price on last trading day <i>(Note 1)</i> <i>approximate</i>	Discount of placing price to closing price on last trading day <i>(Note 1)</i> <i>approximate</i>	Maximum dilution <i>(Note 2)</i> <i>approximate</i>
1.	Freeman Fintech Corporation Limited (279)	28/2/2020	26/5/2021	1/11/2021	From 81.50% to 82.10%	N/A	91.17%
2.	China Oil Gangran Energy Group Holdings Limited (8132)	2/7/2019	19/3/2021	28/6/2021	87.55%	N/A	85.97%
3.	Norstar Founders Group Limited (2339)	19/1/2009	20/11/2013	27/1/2014	96.80%	N/A	90.00%
4.	China Packaging Group Company Limited (572)	28/4/2009	12/9/2011	4/11/2011	94.83%	N/A	92.10%
5.	China Medical And Bio Science Limited (8120)	28/10/2008	2/9/2011	1/11/2011	89.58%	N/A	91.87%
6.	Smart Union Group (Holdings) Limited (2700)	15/10/2008	24/8/2011	11/11/2011	72.00%	72.00%	92.00%
				Mean	86.34%	72.00%	90.52%
				Minimum	72.00%	72.00%	85.97%
				Maximum	96.80%	72.00%	92.10%
	The Company (731)	2/7/2020	31/12/2021		96.68% <i>(Note 3)</i>	96.68% <i>(Note 3)</i>	91.93%

*Source: Website of the Stock Exchange*

*Notes:*

1. Based on the figures disclosed in the initial circular of the Proposal Comparables.
2. Maximum dilution effect of the Proposal Comparables is calculated as: (respective number of new shares to be issued in each issue of shares as contemplated under the respective resumption proposal)/(the total number of issued shares as enlarged by the issue of shares under the respective resumption proposal) x 100% and assuming all of the outstanding options, warrants, derivatives or convertible securities (if any) are exercised and/or converted.
3. Based on the closing price of HK\$0.365 per Share on the Last Trading Day after taking into account the effect of the Capital Reorganisation, which is equivalent to the theoretical closing price of the Shares of approximately HK\$3.65 per New Share.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As shown in the above table, the discount of the subscription prices of the Proposal Comparables to their respective closing prices on last trading day ranges from approximately 72.00% to approximately 96.80%, with an average discount of approximately 86.34%. The discount of approximately 96.68% represented by the Subscription Price to the theoretical quoted price of the New Shares on the Last Trading Day falls within the range of discounts of the Proposal Comparables.

Despite the Subscription Price appears to be at a deep discount which is close to the maximum discount of approximately 96.80% of the Proposal Comparables, having considered that (i) the Company is in suspension for trading of Shares for over a year and the Restructuring is required for the Resumption; (ii) the significant consolidated net liabilities position of the Group as at 31 March 2021; (iii) the Subscription forms part and parcel of the Restructuring seeking for the resumption of trading in the Shares; and (iv) for general reference only, the discount represented by the Subscription Price to the theoretical quoted price of the New Shares on the Last Trading Day falls within the range of discounts of the Proposal Comparables, we are of the view and concur with the view of the Directors that the principal terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

### **7. The Placement**

Pursuant to the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), on 28 December 2021, the Placing Agreement for Placement has been entered into amongst the Company, the Investor and the Placing Agent for Placement, pursuant to which the Placing Agent for Placement will undertake to place, on a fully underwritten basis, 56,584,032 Placement Shares to not less than six Placee(s) at the Placement Share Price.

After taking into account the Subscription Shares, the Placement Shares and the Creditors' Shares allotted and issued, (i) assuming that none of the Preference Shares have been converted, the number of the Placement Shares shall represent approximately 4.04% of the then issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares; and (ii) assuming that all the Preference Shares have been fully converted, the number of the Placement Shares shall represent approximately 4.00% of the Enlarged Capital.

Each of the Placing Agent for Placement, the Sub-agents and the Placees (or as the case may be, their ultimate beneficial owner(s)) thereunder shall not be a Shareholder prior to the Placement Completion Date or member of the Concert Party Group and otherwise will be an Independent Third Party. Please refer to the paragraph headed "4. The Placement" in the Letter from the Board for further details of the Placement.

### ***7.1 Use of proceeds***

As disclosed in the Letter from the Board, as the costs and expenses of the Placement in the amount of approximately HK\$352,500 will be solely borne by the Investor, the net proceeds from the Placement will be equivalent to the gross proceeds of approximately HK\$6,849,837, which shall be used for discharging part of the debts of the Company under the Listco Scheme of approximately HK\$3,046 million as at 31 March 2021.

According to the Letter from the Board, the amount of proceeds of the Placement to be applied to the Listco Scheme and the determination of the Placement Share Price were commercial decisions determined by reference to (i) the prevalent unstable financial market conditions; (ii) the Group's recent financial performance and its financial position as at 31 March 2020; (iii) the prevailing market price of the Shares prior to and including the Last Trading Day; (iv) the business prospects of the Group given the current market conditions; (v) the commercial viability of the Listco Scheme; (vi) its current cash flow needs; and (vii) the belief of the Board that certain amount of funds could be raised by way of the Placement with certainty and be applied to the Listco Scheme.

In light of the above and having considered the intended use of proceeds (as disclosed above) from the Placement, we concur with the Directors' view that the Placement would fund the implementation of Listco Scheme in accordance with the terms as approved by the Scheme Creditors and the Hong Kong Court, which will facilitate the Group in discharging the debts of the Company under the Listco Scheme and would enlarge the capital base of the Company which is fair and reasonable and in the interest of the Company and Shareholders (including Independent Shareholders) as a whole.

### ***7.2 Principal terms of the Placement***

#### *7.2(a) The Placement Share Price*

The Placement Share Price of HK\$0.121056 per Placement Share is the same as the Subscription Price and the Issue Price of the Creditors' Shares, which represents:

- (i) a discount of approximately 96.68% to the theoretical closing price of HK\$3.65 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 96.61% to the average theoretical closing price of HK\$3.57 per New Share as adjusted for the effect of the Capital Reorganisation based on the average of the closing price of HK\$0.357 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) a discount of approximately 96.71% to the average theoretical closing price of HK\$3.68 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.368 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 98.90% to the Group's audited consolidated net asset value per New Share of approximately HK\$11.02 as at 31 March 2020, based on audited consolidated net asset value attributable to Shareholders of approximately HK\$1,257,709,000 as at 31 March 2020 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective;
- (v) a premium of approximately HK\$19.23 over the Group's audited consolidated net liabilities per New Share of approximately HK\$19.11 as at 31 March 2021, based on audited consolidated net liabilities attributable to the Shareholders of approximately HK\$2,180,599,000 as at 31 March 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective; and
- (vi) a premium of approximately HK\$17.39 over the Group's unaudited consolidated net liabilities per New Share of approximately HK\$17.27 as at 30 September 2021, based on the unaudited consolidated net liabilities attributable to the Shareholders of approximately HK\$1,970,776,000 as at 30 September 2021 and 114,107,582 New Shares in issue upon the Capital Reorganisation becoming effective.

As stated in the Letter from the Board, the Placement Share Price is the same as the Subscription Price and the Issue Price of the Creditors' Shares, which is determined after arm's length negotiations between the Company and the Placing Agent for Placement having considered factors including the suspension of trading of the Shares of the Company, the prevailing market conditions, the financial position and prospects of the business operation of the Retained Group. The Placement is inter-conditional with the Group Reorganisation, the Subscription and the taking effect of the Listco Scheme; and the Subscription Shares, the Placement Shares and the Creditors' Shares will be issued simultaneously. Since the Placement Share Price is the same as the Subscription Price, we are of the view that the basis of setting the Placement Share Price at a deep discount to the closing price of the Shares is the same as that of the Subscription Price and is fair and reasonable. For details, please refer to the sub-paragraph headed "6.2(a) The Subscription Price" under the paragraph headed "6. The Subscription" above in this letter.

*7.2(b) Comparison with comparable transactions*

For the purpose of providing the Independent Shareholders with a general reference for companies listed on the Stock Exchange engaged in similar transaction as those as described in this Circular, we have considered the Proposal Comparables and identified one comparable (Smart Union Group (Holdings) Limited (stock code: 2700)) which also conducted a placing as part of the restructuring exercised.

Notwithstanding only one comparable which also conducted a placing is identified in the Proposal Comparables which may not have a meaningful analysis on the Placement Share Price, having considered (i) the one comparable represented similar transaction of restructuring and placing as the Company; (ii) the review period of approximately ten years of comparable transactions can represent the general market terms of restructuring; and (iii) the list of Proposal Comparables is exhaustive based on the selection criteria set out in the sub-paragraph headed “6.2(b) Comparison with comparable transactions” under the paragraph headed “6. The Subscription” above in this letter, we consider that the one comparable can provide a general reference to the Independent Shareholders.

As shown in the above table of the sub-paragraph headed “6.2(b) Comparison with comparable transactions” under the paragraph headed “6. The Subscription” above in this letter, the discount of the placing price to the closing price per share on the last trading day of the Proposal Comparables is approximately 72.00%. The discount of the Placement Share Price to the theoretical quoted price per New Share on the Last Trading Day of approximately 96.68% is deeper than the discount of the Proposal Comparables.

Notwithstanding the discount of the Placement Share Price to the theoretical quoted price per New Share on the Last Trading Day of approximately 96.68%, which represents a deeper discount than the Proposal Comparables, after considering:

- (i) the Company is in suspension for trading of Shares for over a year and the Restructuring is required for the Resumption;
- (ii) the significant consolidated net liabilities position of the Group as at 31 March 2021; and
- (iii) the Placement forms part and parcel of the Restructuring seeking for the resumption of trading in the Shares,

we are of the view that such deep discount of the Placement Share Price to the theoretical quoted price per New Share on the Last Trading Day is fair and reasonable and in the interest of the Company and the Shareholders (including Independent Shareholders) as a whole.

*7.2(c) Placement commission of the Placement*

On 28 December 2021, the Placing Agreement for Placement was entered into amongst the Company, the Investor and the Placing Agent for Placement, pursuant to which the Placing Agent for Placement will undertake to place, on a fully underwritten basis, 56,584,032 Placement Shares to not less than six Placee(s) at the Placement Share Price. Detailed terms of the Placing Agreement for Placement are set out in the paragraph headed “4. The Placement” in the Letter from the Board. According to the Letter from the Board, upon Closing, the Investor undertakes to pay the Placing Agent for Placement a placing commission of 5.0% of the aggregate amount which is equal to the Placement Share Price multiplied by the number of the Placement Shares being placed by the Placing Agent for Placement and the Placement Shares being underwritten by the Placing Agent for Placement in the event that the Placing Agent for Placement fails to place, or procure the placing of, the relevant Placement Shares in fulfillment of the relevant Placing Commitment upon receipt of subscription moneys for such Placement Share.

As stated in the Letter from the Board, the placing commission was determined at after arm’s length negotiations between the Investor and the Placing Agent for Placement by reference to the size, the current market condition and the time allowed for the Placing Agent for Placement to procure the placing of the Placing Shares. Regarding the placing commission is borne by the Investor, the Directors of the Investor advised us that it has been commercially agreed by the parties to the Placing Agreement for Placement that the cost and expenses of the Placement and placing commission shall be paid by the Investor because the amount of the net proceeds of the Placement which will be used for discharging of debts of the Company under the Listco Scheme has been approved by the Scheme Creditors and the Hong Kong Court, and therefore payment by the Company of any such costs or commission would affect the amount of the net proceeds of the Placement available for the Listco Scheme.

To assess the fairness and reasonableness of the terms of the placing commission of the Placement, we have reviewed the Proposal Comparables. We noted that only one comparable of Smart Union Group (Holdings) Limited (stock code: 2700) had the placing of new shares arrangement and the placing commission of the comparable is 3.0%. Since there is no placing commission to be borne by the Company which is favourable to the Group, we concur with view of the Directors that the placing commission is fair and reasonable and in the interest of the Company and the Shareholders (including Independent Shareholders) as a whole.

Taking into account that (i) the Company is in suspension for trading of Shares for over a year and the Restructuring is required for the Resumption; (ii) the significant consolidated net liabilities position of the Group as at 31 March 2021; (iii) the Placement forms part and parcel of the Restructuring seeking for the resumption of trading in the Shares; (iv) the discount represented by the Placement Share Price to the closing price of the Shares on the Last Trading Day is fair and reasonable; and (v) the placing commission of the Placement is fair and reasonable, we are of the view and concur with the view of the Directors that the principal terms of the Placing Agreement for Placement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

#### **8. Fund-raising alternatives available to the Group**

Given the current net liabilities position of the Group, the Petition and the implementation of the UPPSD Bankruptcy Reorganisation, there were very limited fund-raising alternatives available to the Group. In particular, on 28 September 2021, Shandong Bairun provided the loan of RMB250 million in accordance with the UPPSD Bankruptcy Reorganisation plan and the Facility Agreement pursuant to which RMB170 million has been released to UPPSD Bankruptcy Administrator (at the instruction of SPV2) for settlement of the First Instalment Payments and the reorganisation expenses and debts; and RMB80 million has been released to UPPSD (also at the instruction of SPV2) for daily business operations of UPPSD. It represented that UPPSD has to obtain the debt financing from the Investor's related party in support for settlements of the First Instalment Payments, the reorganisation expenses and debts and daily business operation of UPPSD. Furthermore, the Group is currently in net liabilities position and therefore the Directors are of the view that the Group could not obtain any debt financing or borrowings from the external banks and financial institution.

We are advised by the Directors that the Company had considered the inclusion of an open offer in the Restructuring. However, the Directors considered that it is not beneficial to the Company and the Shareholders as a whole to include such open offer and decided to replace the open offer by the Placement, after considering the reasons as set out below:

1. The absence of an open offer will mean that the existing Shareholders are not required to pay any subscription money to retain an aggregate of approximately 4.04% shareholding in the Company. In addition, the lack of an open offer is not uncommon in similar restructuring cases;
2. although both open offer and rights issue would allow the Shareholders to participate in the subscription of New Shares and maintain their respective pro-rata shareholdings in the Company, it would take a relatively longer timeframe of more than three months from the dispatch of the circular to commencement of dealing in the offer shares or rights shares (as the case may

be) when compared to the Subscription and the Placement of normally one month from the dispatch of the circular pertaining to an allotment and issue of the Subscription Shares and the Placement Shares under Specific Mandate to dealing in the New Shares; and

3. All the placing commission, charges and expenses under the Placing Agreement for Placement are payable by the Investor to the Placing Agent for Placement which is favourable to the Group.

Having taken into account of the above and that (i) the current net liabilities financial position of the Group; (ii) the Subscription and the Placement could raise fund for discharging the debts of the Company under the Listco Scheme and paying the Restructuring Expenses; (iii) other fund-raising alternatives such as debt financing, open offer and right issues are not feasible to the Group; (iv) the principal terms of the Subscription Agreement are fair and reasonable as discussed in the paragraph headed “6. The Subscription” above in this letter; and (v) the principal terms of the Placing Agreement for Placement are fair and reasonable as discussed in the paragraph headed “7. The Placement” above in this letter, we are of the view and concur with the view of the Directors that the Subscription and the Placement are in the interest of the Company and the Shareholders (including the Independent Shareholders) as a whole.

#### **9. Effect on the shareholding structure of the Company**

Reference is made to the paragraph headed “The Group and its shareholding structure” as set out in the Letter from the Board and according to the Directors. For illustrative purpose only, the shareholding interests of the existing public Shareholders would be diluted from approximately 25.38% as at the Latest Practicable Date and upon the taking effect of the Capital Reorganisation to:

- (i) approximately 2.06% immediately upon the allotment and issue of Subscription Shares for the Subscription, the Placement Shares for the Placement and the Creditors’ Shares for the Listco Scheme assuming none of the Preference Shares are converted; and
- (ii) approximately 2.04% immediately upon the allotment and issue of Subscription Shares for the Subscription, the Placement Shares for the Placement and the Creditors’ Shares for the Listco Scheme assuming all of the Preference Shares are converted;

As noted from the table under the sub-paragraph headed “6.2(b) Comparison with comparable transactions” under the paragraph headed “6. The Subscription” above in this letter, the maximum dilution impacts of the Proposal Comparables range from approximately 85.97% to 92.10%, with an average of approximately 90.52%. The maximum dilution impact as contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) of approximately 91.93% is within the range of that of the Proposal Comparables.

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Despite the dilution effect of the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares, having considered that (i) the significant consolidated net liabilities position of the Group as at 31 March 2021, and thus is imminent to improve the financial position of the Company by introducing the Investor for the Restructuring; (ii) the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme and the grant of the Specific Mandates are part and parcel of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) seeking the resumption of trading in the Shares on the Stock Exchange; (iii) the fund raised from the Subscription (after deducting the Restructuring Expenses) and the Placement had been earmarked for discharging the debts of the Company under the Listco Scheme; (iv) the maximum dilution impact of the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares is within the range of that of the Proposal Comparables; (v) the principal terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned as discussed in the paragraph headed "6. The Subscription" above in this letter; (vi) the principal terms of the Placing Agreement for Placement are fair and reasonable so far as the Independent Shareholders are concerned as discussed in the paragraph headed "7. The Placement" above in this letter; and (vii) the Restructuring provides an opportunity for the Independent Shareholders to resume the trading of the Shares if the transactions contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) is passed at the SGM rather than no net realised value per Share (taking into account the Company is at a net liabilities position) in the event of delisting of the Company, we consider the potential dilution effect to the existing public Shareholders being inevitable but acceptable.

### **10. The Whitewash Waiver**

As at the date of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and the Latest Practicable Date, the Concert Party Group does not hold any Shares. Upon the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares at Closing and assuming that none of the Preference Shares have been converted, the Investor will be interested in a maximum number of 990,220,583 New Shares, representing approximately 70.66% of the then issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares. As such, the Investor would be required to make an unconditional mandatory general offer for all the issued Shares (not already owned or agreed to be acquired by the Concert Party Group) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

In this regard, the Investor has made an application to the Executive for the Whitewash Waiver to relieve them from their obligation to make a mandatory general offer as a result of the acquisition of Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the Whitewash Waiver and the transactions contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) being separately approved by at least 75% and more than 50% of the votes cast by the Independent Shareholders at the SGM by way of poll, respectively, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. As the shareholding of the Investor will exceed 50% of the issued share capital of the Company following the completion of the Restructuring, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

The Whitewash Waiver may or may not be granted by the Executive. Completion of the Restructuring is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Restructuring will not proceed. The Company notes that the Executive may not grant the Whitewash Waiver if the Restructuring does not comply with applicable rules and regulations. The Company is not aware of any matters that will result in the Restructuring not being compliant with any applicable rules and regulations. Nevertheless, the implementation of UPPSD Bankruptcy Reorganisation plan has completed independently from the other transactions contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) with effect from 11 October 2021.

Having considered that (i) the approval of the Whitewash Waiver by the Independent Shareholders and the granting of the Whitewash Waiver by the Executive is a non-waivable condition precedent to the Subscription; (ii) the Whitewash Waiver would allow the Restructuring and the transactions contemplated thereunder to proceed and thus lead to resumption of trading in the Shares; and (iii) the principal terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole as discussed in the paragraph headed “6. The Subscription” above in this letter, we are of the view that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

#### **11. The Listco Scheme and the Special Deal I**

Pursuant to the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Company propose to present to its Scheme Creditors the Listco Scheme to fully discharged all the claims from the Scheme Creditors in the total amount of approximately HK\$3,046 million upon taking effect of the Listco Scheme. Based on the available books and records of the Company, as at 31 March 2021, the estimated total amount of claims against, and the liabilities of, the Company is approximately HK\$3,046 million which

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is indicative only and the payment to the claims of the creditors of the Company will be subject to the arrangement of the Listco Scheme. As confirmed by the Directors, after reviewing the notices of claim received, the books and records recovered by the JPLs and the list of Shareholders of the Company, as at the Latest Practicable Date, other than DaiEi, none of the Scheme Creditors holds any Shares. The Listco Scheme has been approved by the Hong Kong Court on 28 October 2021.

The SchemeCo, shall accept and assume an equivalent liability in place of the Company in respect of the claims of creditors of the Company, and in return, the Scheme Creditors will be entitled to receive dividends (from the realisation of the assets of the SchemeCo) pursuant to the Listco Scheme in full and final settlement to the Scheme Creditors' claims against the SchemeCo. The Scheme Administrators shall incorporate the SchemeCo to hold and realise assets of the SchemeCo for distribution to the Scheme Creditors and settle the costs and expenses arising from the implementation of the Listco Scheme in accordance with the terms of the Listco Scheme. All the Excluded Subsidiaries will be transferred to the SchemeCo. For details of other principal terms of the Listco Scheme, please refer to the paragraph headed "5. The Listco Scheme" in the Letter from the Board.

As stated in the Letter from the Board, the assets of the SchemeCo to be realised for the benefits of the Scheme Creditors shall include:

- (i) the remaining balance of the gross Subscription Proceeds of approximately HK\$119,872,142 after deducting the Restructuring Expenses;
- (ii) the 240,482,142 Creditors' Shares to be allotted and issued by the Company to the SchemeCo at the Issue Price of the Creditors' Shares for the benefit of the Scheme Creditors as part of the Listco Scheme, representing approximately 17.16% of the issued share capital of the Company enlarged by the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors' Shares, assuming none of the Preference Shares have been converted; and approximately 17.0% of the Enlarged Capital assuming all Preference Shares have been fully converted, subject to the right to dispose the Creditors' Shares by the arrangement for the Placing Agreement for Placing Out as detailed in the paragraph headed "13. The Placing Agreement for Placing Out and Special Deal III" below in this letter;
- (iii) the gross proceeds for the Placement of approximately HK\$6,849,837;
- (iv) the shares and/or other assets of the Excluded Subsidiaries;
- (v) the amount due from the Excluded Subsidiaries to the Retained Group in the sum of approximately HK\$300 million;
- (vi) the cash, bank deposits and account receivables of the Company as at the effective date of the Listco Scheme (apart from the account receivables due from the Retained Group); and

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- (vii) all claims or litigations and all potential claims or litigation rights against third parties raised by the Retained Group (to the extent transferrable under the applicable law and approved by the relevant party).

In relation to the aforementioned Creditors' Shares to be allotted and issued by the Company to the SchemeCo for the benefit of the Scheme Creditors, as soon as practicable after the taking effect of the Listco Scheme and the Scheme Administrators having adjudicated the claims of all creditors of the Company, they shall fix the respective entitlement of the Creditors' Shares of each Scheme Creditor by making reference to the amount of admitted claim of each Scheme Creditor to the total amount of admitted claims of all Scheme Creditors. The Scheme Administrators shall issue a notice to each Scheme Creditor in relation to its entitlement of the Creditors' Shares, and each Scheme Creditor shall have the option to (i) request the SchemeCo to deposit its entitled Creditors' Shares into a CCASS securities account designated by the Scheme Creditor or to be delivered physical certificate representing the entitled Creditors' Shares or (ii) receive cash to be realised from the disposal of the Creditors' Shares held by the SchemeCo for their benefits as detailed in the paragraph headed "13. The Placing Agreement for Placing Out and Special Deal III" below in this letter. Based on the above arrangement under the Listco Scheme and having considered that the significant consolidated net liabilities position of the Group as at 31 March 2021, and thus is imminent to improve the financial position of the Company by introducing the Investor for the Restructuring, we concur with the view of the Directors that the Listco Scheme is to facilitate the fully discharge of all the claims from the Scheme Creditors in a formal and orderly manner which is fair and reasonable and in the interest of the Company and Shareholders (including Independent Shareholders) as a whole.

Based on the records available to the Company, as at the Latest Practicable Date, DaiEi holds 20,000,000 Shares, representing approximately 1.8% of the issued ordinary share capital of the Company. Based on the records available to the Company, DaiEi is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Listco Scheme taking effect, DaiEi may also be a Scheme Creditor. If the claim of DaiEi is admitted by the Scheme Administrators, DaiEi will be entitled to the Payment to DaiEi under the Listco Scheme.

As the Payment to DaiEi under the Listco Scheme is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code and therefore requires (i) consent by the Executive; (ii) the Independent Financial Adviser to publicly state in its opinion the terms of the Listco Scheme are fair and reasonable; and (iii) approval by the Independent Shareholders at the SGM, in which the Scheme Creditors, their associates and parties acting in concert with any of them who are Shareholders will be required to abstain from voting on the relevant resolutions approving the Listco Scheme and the Special Deal I. The Company has applied to the Executive for the consent to the Special Deal I under Rule 25 of the Takeovers Code.

Taking into account that (i) the significant consolidated net liabilities position of the Group as at 31 March 2021, and thus is imminent to improve the financial position of the Company by introducing the Investor for the Restructuring; (ii) all claims and liabilities of the Company shall be discharged in full upon the taking effect of the Listco Scheme; (iii) the Scheme Creditors with the claims admitted under the Listco Scheme would be entitled to receive the consideration under the Listco Scheme as contemplated in the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) a formal and orderly manner and thus lead to resumption of trading in the Shares; (iv) the Special Deal I is to facilitate the implementation of the Listco Scheme; (v) the Special Deal I is subject to the approval from the Independent Shareholders; (vi) the Investor, the creditors of the Company (including DaiEi), the Scheme Administrators, the SchemeCo, their associates and parties acting in concert with any of them who are Shareholders, and those (if any) who are involved in or interested in the Special Deal I will be required to abstain from voting on the relevant resolution(s); (vii) all the Independent Shareholders are entitled to vote for or against the resolutions in respect of the Special Deal I at the SGM; and (viii) the Restructuring will not proceed without the consent to the Special Deal I by the Executive, we are of the view that the terms of the Special Deal I are fair and reasonable.

## **12. The UPPSD Bankruptcy Reorganisation and the Special Deal II**

Pursuant to the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), parties shall undertake and agree to use their best endeavours to procure the conversion of the bankruptcy proceeding of UPPSD into a bankruptcy reorganisation with a view to facilitating a holistic restructuring of the indebtedness of UPPSD, and the completion of the implementation of the UPPSD Bankruptcy Reorganisation as contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) and as approved by the PRC Court or as recognised by the Investor.

The principal terms of the UPPSD Bankruptcy Reorganisation include, *inter alia*:

- (i) SPV2 becoming the sole registered shareholder of UPPSD through the UPPSD Bankruptcy Reorganisation;
- (ii) settlement of four creditors' priority claims with an aggregate amount of RMB4,960,533.58 in one lump sum payment by cash in priority to other creditors with unsecured claims, with their unsecured claims totalling RMB1,084,101,760.80 settled in the method as provided in (iv), (v) and (vi) below;
- (iii) settlement of two creditors' verified tax claims with an aggregate amount of RMB48,333,787.65 in one lump sum payment by cash;
- (iv) settlement of each creditor's unsecured claims with principal amount of RMB200,000 (inclusive) or below in full by cash;

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- (v) for each creditor's unsecured claims with principal amount exceeding RMB200,000, settlement will be completed within four years in five instalments of 20% every year. The First Instalment Payment shall be made to repay creditor's unsecured claim of principal amount below RMB200,000 (inclusive) and 20% of the principal amount in excess of RMB200,000. The balance of approximately RMB234.5 million will be paid in four equal subsequent instalments of approximately RMB58.6 million each (each of which represents 20% of the principal amount in excess of RMB200,000) on or before the first, second, third and fourth anniversary date of the First Instalment Payment. Remaining debts shall not bear any interest for the period of settlement in instalments;
- (vi) the settlement of the Debts of UPPSD's Related Parties (Confirmed) in the total sum of RMB741,989,908.38 as recognised by the UPPSD Bankruptcy Administrator in one lump sum payment of RMB50 million; and
- (vii) upon the completion of UPPSD Bankruptcy Reorganisation, UPPSD shall forfeit its all other receivables, prepayments and other debts due by the Group to UPPSD, which amounted to RMB156,943,268.36 based on the liquidation audit on UPPSD commissioned by the UPPSD Bankruptcy Administrator.

On 29 July 2021, the UPPSD Bankruptcy Administrator convened the second creditors' meeting, at which the UPPSD Bankruptcy Reorganisation plan was duly approved by the creditors and shareholders of UPPSD. On 31 July 2021, the UPPSD Bankruptcy Administrator applied to the PRC Court for its approval of the UPPSD Bankruptcy Reorganisation plan, and the PRC Court approved the same with effect from 1 August 2021. On 1 August 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into an agreement of termination to the Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement, pursuant to which the Entrusted Operation was terminated and UPPSD carries on its business operation on its own since 1 August 2021. As such and commencing from 1 August 2021, the UPPSD Bankruptcy Reorganisation plan started to be implemented by parties in accordance with the plan approved by the creditors and shareholders of UPPSD and the PRC Court.

The completion of the implementation of the UPPSD Bankruptcy Reorganisation plan took place on 29 September 2021 and was confirmed by the PRC Court on 11 October 2021 upon satisfaction of the following three conditions:

- (i) in respect of payment of claims in cash to each creditor of UPPSD, the payment of their respective First Instalment Payment has been paid in full as reserve to the bank account of the UPPSD Bankruptcy Administrator;
- (ii) issuance of the "Confirmation of Remaining Debts Plan" by UPPSD to the creditors confirming that UPPSD shall pay the remaining debts/claims in accordance with the date and amounts specified in the UPPSD Bankruptcy Reorganisation plan to such creditors; and

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(iii) the reorganisation expenses and debts in the amount of approximately RMB21 million have been paid off in compliance with the UPPSD Bankruptcy Reorganisation plan.

During the UPPSD Bankruptcy Reorganisation proceeding, DaiEi as a creditor of UPPSD, claimed an amount of RMB382,621.59 owed by UPPSD to it. As a creditor with unsecured claim of UPPSD, according to the terms of the UPPSD Bankruptcy Reorganisation plan and the advice from the Directors, DaiEi is entitled to receive the payment in the following manner:

**Repayment schedule for DaiEi's claim under  
UPPSD Bankruptcy Reorganisation**

		<b>Amount (RMB) (approximate)</b>
Total claim	(a)	<u><u>382,621</u></u>
First Instalment Payment		
— Fixed amount	(b)	200,000
— 20% of the balance of the remaining amount after deducting the fixed amount of RMB200,000 ( <i>Note 1</i> )		<u>36,525</u>
	(c)	<u>236,525</u>
First anniversary date of the First Instalment Payment ( <i>Note 2</i> )		36,524
Second anniversary date of the First Instalment Payment ( <i>Note 2</i> )		36,524
Third anniversary date of the First Instalment Payment ( <i>Note 2</i> )		36,524
Fourth anniversary date of the First Instalment Payment ( <i>Note 2</i> )		<u>36,524</u>
	(d)	<u>146,096</u>
	(c) + (d)	<u><u>382,621</u></u>

*Notes:*

1. Formula: ((a) – (b)) x 20%
2. Formula: ((a) – (c))/4

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As shown in the above table, DaiEi is entitled to receive a total of approximately RMB236,525 as the First Instalment Payment, and four subsequent instalments in aggregate of approximately RMB146,096.

DaiEi's entitlement for the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation originated from its capacity as a creditor of UPPSD with unsecured claim of UPPSD pursuant to a sale and purchase contract dated 19 March 2020 and entered into by and between DaiEi as seller and UPPSD as buyer for purchase of certain amount of recycled liner board in rolls for a total purchase price of US\$60,000 (which approximately equals to RMB382,621.59), which has been verified and confirmed by the UPPSD Bankruptcy Administrator during the UPPSD Bankruptcy Reorganisation proceeding.

Pursuant to the Letter from the Board, as at the Latest Practicable Date, the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation has been made.

As the Payment to DaiEi under the UPPSD Bankruptcy Reorganisation is not extended to all the other Shareholders, such settlement of indebtedness constitutes a special deal under Rule 25 of the Takeovers Code and therefore requires (i) consent by the Executive; (ii) the Independent Financial Adviser to publicly state in its opinion the repayment and the terms thereunder are fair and reasonable; and (iii) approval by the Independent Shareholders at the SGM, in which the creditors under the UPPSD Bankruptcy Reorganisation, their associates and parties acting in concert with any of them who are Shareholders will be required to abstain from voting on the relevant resolutions approving the Special Deal II. The Company has applied to the Executive for the consent to the Special Deal II under Rule 25 of the Takeovers Code.

Having considered (i) the significant consolidated net liabilities position of the Group as at 31 March 2021, and thus is imminent to improve the financial position of the Company by introducing the Investor for the Restructuring; (ii) the creditors under the UPPSD Bankruptcy Reorganisation with the claims admitted under the UPPSD Bankruptcy Reorganisation would be orderly arranged; (iii) the Special Deal II is to facilitate the implementation of the UPPSD Bankruptcy Reorganisation; (iv) the Special Deal II is subject to the approval from the Independent Shareholders; (v) the UPPSD Bankruptcy Reorganisation would allow the Restructuring and the transactions contemplated thereunder to proceed and thus lead to resumption of trading in the Shares; (vi) the Investor, creditors under the UPPSD Bankruptcy Reorganisation (including DaiEi), their associates and parties acting in concert with any of them who are Shareholders, and those (if any) who are involved in or interested in the Special Deal II will be required to abstain from voting on the relevant resolution(s); (vii) all the Independent Shareholders are entitled to vote for or against the resolutions in respect of the Special Deal II at the SGM; and (viii) the Restructuring will not proceed without the consent to the Special Deal II by the Executive, we are of the view that the terms of the Special Deal II are fair and reasonable.

### **13. The Placing Agreement for Placing Out and the Special Deal III**

Pursuant to the terms of the Listco Scheme, the Scheme Creditors electing to hold the Creditors' Shares in their own names or through CCASS are not entitled to the Price Protection.

Only the SchemeCo (for the benefit of the Scheme Creditors other than the Scheme Creditors who elected to hold the Creditors' Shares in their own names or through CCASS) shall have the right (exercisable by the Scheme Administrators in their absolute discretion) to dispose of the Creditors' Shares on behalf of the relevant Scheme Creditors, either

- (i) in the open market at the market price, or
- (ii) by instructing the Placing Agent for Placing Out one or more time during the Placing Out Period to place such number of Creditors' Shares to the Placees and, given the Price Protection will be in place, realise such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares, thereby offering a certain minimum realisation from the Creditors' Shares in exchange for the relevant Scheme Creditors discharging and releasing their admitted claims against the Company, subject to the passing of the necessary resolutions by the Shareholders at the SGM to approve the Special Deal III.

The Investor will enter into the Placing Agreement for Placing Out with the Scheme Administrators (on behalf of the Scheme Creditors), the SchemeCo and the Placing Agent for Placing Out at Closing.

The Scheme Creditors may elect to (i) receive the Creditors' Shares in their own names or through CCASS (the "**Scheme Creditors' Choice I**"), or (ii) receive cash to be realised from the disposal of the Creditors' Shares held by the SchemeCo for the benefits of the relevant Scheme Creditors (the "**Scheme Creditors' Choice II**").

In the Scheme Creditors' Choice I, the Scheme Creditors electing to hold the Creditors' Shares in their own names or through CCASS are not entitled to the Price Protection as only the SchemeCo (for the benefit of these Scheme Creditors who elect to receive cash in the Scheme Creditors' Choice II) is entitled to the Price Protection. In the Scheme Creditors' Choice II, the SchemeCo (for the benefit of the Scheme Creditors other than the Scheme Creditors who elected to hold the Creditors' Shares in their own names or through CCASS) shall have the right (exercisable by the Scheme Administrators in their absolute discretion) to dispose of the Creditors' Shares on behalf of the relevant Scheme Creditors, either (i) in the open market at the market price, or (ii) by instructing the Placing Agent for Placing Out one or more time during the Placing Out Period to place such number of Creditors' Shares to Placees and, given the Price Protection, realise such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares pursuant to the Placing Agreement for Placing Out. In any event, the shareholding of the Investor and the Concert Party Group in the Company will not exceed 75% of the issued Shares as the Creditors' Shares are held by

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the Scheme Creditors, who are members of the public, in their own names or through CCASS, or to be sold in the open market, or placed out in part or in full under the Placing Agreement for Placing Out.

The relevant proceeds of the sale of the Creditors' Shares, after deducting the costs of realisation and payment of any applicable taxes or duties, will be paid by the Scheme Administrators to that Scheme Creditor in full satisfaction of his rights to those Creditors' Shares as and when such disposal has been completed.

Each of the Placing Agent for Placing Out and the Placees thereunder (or as the case may be, their ultimate beneficial owner(s)) shall not be a Shareholder prior to the completion of Placing Out or member of the Concert Party Group and otherwise will be an Independent Third Party.

DaiEi is a creditor of the Company. If admitted as a Scheme Creditor of the Company by the Scheme Administrators, DaiEi has a right to (i) receive the Creditors' Shares in their own names or through CCASS (in proportion to its claim adjusted by the Scheme Administrators); or (ii) receive cash to be realised from the disposal of the relevant Creditors' Shares held by the SchemeCo for the benefits of DaiEi. In the latter case, the SchemeCo has the right (exercisable by the Scheme Administrators in their absolute discretion) to sell the relevant Creditors' Shares on DaiEi's behalf, either (i) in the open market at the market price or (ii) by instructing the Placing Agent for Placing Out one or more times during the Placing Out Period to place such number of Creditors' Shares to Placees and, given the Price Protection will be in place, realise such Creditors' Shares at a price not less than the Issue Price of the Creditors' Shares pursuant to the Placing Agreement for Placing Out.

As the Price Protection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, is not extended to all the other Shareholders, such Price Protection offered to DaiEi via the SchemeCo, through its participation in the Listco Scheme, constitutes a special deal under Rule 25 of the Takeovers Code and therefore requires (i) consent by the Executive; (ii) the Independent Financial Adviser to publicly state in its opinion the arrangement and the terms thereunder are fair and reasonable; and (iii) approval by the Independent Shareholders at the SGM, in which the Scheme Creditors, their associates and parties acting in concert with any of them who are Shareholders will be required to abstain from voting on the relevant resolutions approving the Special Deal III. The Company has applied to the Executive for the consent to the Special Deal III under Rule 25 of the Takeovers Code.

We have discussed with the Directors and been advised that (i) the Placing Agreement for Placing Out will be entered into by and among the Investor, the Scheme Administrators (on behalf of the Scheme Creditors), the SchemeCo and the Placing Agent for Placing Out whilst the Company itself would not be a party of it; (ii) any possible subsequent of the Placing Out would result in a simply transfer of New Shares among the SchemeCo (on behalf of the Scheme Creditors) and the Placees; and (iii) any possible subsequent of the Placing Out would have no direct impact to the Retained Group's business operation, financial position and cash flow position.

Taking into account that (i) any possible subsequent of the Placing Out would result in a simply transfer of New Shares among the SchemeCo (on behalf of the Scheme Creditors) and the Placees and therefore no direct impact would have on the Retained Group's business operation, financial position and cash flow position; (ii) the Special Deal III is to facilitate the implementation of the Listco Scheme; (iii) the Special Deal III is subject to the approval from the Independent Shareholders; (iv) the Investor, the creditors of the Company (including DaiEi), the Scheme Administrators, the SchemeCo, their associates and parties acting in concert with any of them who are Shareholders, and those (if any) who are involved in or interested in the Special Deal III will be required to abstain from voting on the relevant resolution(s); (v) all the Independent Shareholders are entitled to vote for or against the resolutions in respect of the Special Deal III at the SGM; and (vi) the Restructuring will not proceed without the consent to the Special Deal III by the Executive, we are of the view that the terms of the Special Deal III are fair and reasonable.

#### **14. Financial effects of the Restructuring**

As advised by the Directors, upon completion of the Restructuring, all the existing assets and liabilities of the Excluded Subsidiaries will be transferred to the SchemeCo and the sole assets of the Company will be the Retained Group. Please refer to the section headed "Appendix II Unaudited pro forma financial information of the Group" (the "**Pro Forma Information**") as included in this Circular for details.

##### ***14.1 Assets and liabilities***

Based on the Pro Forma Information, if the Resumption had taken place on 30 September 2021, the total assets of the Group as at 30 September 2021 will decrease from approximately HK\$2,075 million to approximately HK\$1,666 million whereas the total liabilities will be reduced from approximately HK\$4,044 million to approximately HK\$1,210 million. On the other hand, the financial position of the Group would be reversed from having net liabilities of approximately HK\$1,969 million to net assets of approximately HK\$456 million. Such improvement is primarily attributable to the proceeds to be raised from the Subscription and the Placement pursuant to the Restructuring, the effect of the full and final settlement of the indebtedness of the Group with the Scheme Creditors under the Listco Scheme and deconsolidation of the Excluded Subsidiaries upon the Listco Scheme taking effect.

### *14.2 Gearing*

As at 30 September 2021, the Group had total assets of approximately HK\$2,075 million and total liabilities of approximately HK\$4,044 million. The debt to asset ratio of the Group was approximately 1.95 times, being the total liabilities divided by total assets. Based on the Pro Forma Information, if the Resumption had taken place on 30 September 2021, the Group would have total assets of approximately HK\$1,666 million and total liabilities of approximately HK\$1,210 million. Accordingly, the debt to asset ratio of the Group would be approximately 0.73 times.

### *14.3 Earnings*

Based on the Pro Forma Information, assuming completion of the Restructuring, the unaudited pro forma net profit of the Retained Group for the six months ended 30 September 2021 would be approximately HK\$2,436 million. Such increase in net profit was primarily attributable to the effect of the full and final settlement of the indebtedness of the Group with the Scheme Creditors under the Listco Scheme and deconsolidation of the Excluded Subsidiaries upon the Listco Scheme taking effect.

## **15. Paperboard Sales Continuing Connected Transactions**

After Closing, the Investor will become a controlling Shareholder and a connected person of the Company. As stated in the Letter from the Board, the Investor is indirectly owned as to 55% and 45% by Xiamen C&D Paper and Zhejiang Xinshengda, respectively. Accordingly, Xiamen C&D Paper or any subsidiary of Xiamen C&D Paper will become an associate of the Investor, and therefore, a connected person of the Company. After Closing, UPPSD will continue to sell the Paperboard Products to Xiamen C&D Paper Group. As such, on 28 December 2021, UPPSD (as vendor) and Xiamen C&D Paper (as purchaser) entered into the Paperboard Sales Framework Agreement to govern the contractual relationship for the Paperboard Sales between UPPSD and Xiamen C&D Paper and its subsidiaries.

Accordingly, it is expected that after Closing, the Paperboard Sales will constitute non-exempted continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**15.1 Background information of the Retained Group and the counterparties**

*15.1(a) Universal Pulp & Paper (Shandong) Co. Ltd.\* (遠通紙業 (山東) 有限公司)*

It is a company incorporated in the PRC with limited liability who is an indirect owned as to 80% and 20% by the Company and KPP respectively prior to the UPPSD Bankruptcy Reorganisation. As stated in the Letter from the Board, as at the Latest Practicable Date, KPP held no interest in UPPSD and SPV2 became the sole registered shareholder of UPPSD. It is principally engaged in manufacturing of paper product in the PRC.

*15.1(b) Xiamen C&D Paper & Pulp Co., Ltd.\* (廈門建發紙業有限公司)*

It is a company incorporated in the PRC with limited liability who is a wholly-owned subsidiary of Xiamen C&D Inc., a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600153). It is principally engaged in sourcing and supplying of forest products such as paper, pulp, wood chips and household paper products.

**15.2 Reasons for and benefits of entering into the Paperboard Sales Framework Agreement**

Pursuant to the Letter from the Board and according to the Directors of the Investor, Xiamen C&D Paper is a limited liability company incorporated in the PRC and is a wholly-owned subsidiary of Xiamen C&D Inc., a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600153); (ii) Xiamen C&D Inc. ranked 148 in 2021 in the Fortune Global 500 list; (iii) as at the Latest Practicable Date, Xiamen C&D Paper has more than 25 subsidiaries and branch companies in the PRC; (iv) Xiamen C&D Paper Group is one of the biggest service providers of forestry, pulp and paper products in the PRC; (v) Xiamen C&D Paper has built up a comprehensive “one-stop” service chain comprising order placing, logistics, insurance, warehousing and financing; (vi) as at the Latest Practicable Date, Xiamen C&D Paper has an annual sales volume of 9 million ton and a sales network comprising over 5,000 customers in the PRC and overseas. In light of this, we have further reviewed the annual report 2020 of Xiamen C&D Inc. and noted that Xiamen C&D Inc. (i) recorded revenue and profit for the year of approximately RMB432 billion and RMB8 billion for the year ended 31 December 2020 respectively; and (ii) had net assets of approximately RMB11 billion as at 31 December 2020. The abovementioned information can demonstrate that Xiamen C&D Paper Group has adequate resources, knowledge and experience in the paper product market in the PRC.

According to the Paperboard Sales Framework Agreement, UPPSD could leverage on the industry leading position, the comprehensive value-added services and the sales network of Xiamen C&D Paper Group in the forestry, pulp and paper products distribution industry to expand its income stream and enhance its sales penetration. We have discussed with the Directors and been advised that (i)

the resourceful and reliable sales channel from Xiamen C&D Paper Group is helpful to the success of the Group; and (ii) the commercial partnership with Xiamen C&D Paper Group could also enhance the Group's portfolio and reputation which would gradually increase the bargaining power of the Group when negotiating with independent third party customers. Therefore, the Directors are of the view that Xiamen C&D Paper Group can help UPPSD to broaden its business smoothly.

Having considered the principal activities of the UPPSD and Xiamen C&D Paper as mentioned above, we are of the view and concur with the view of the Directors that the entering of the Paperboard Sales Framework Agreement which covers the sales of Paperboard Products from UPPSD to Xiamen C&D Paper Group is in the ordinary and usual course of the Group's business.

Based on the above and in particular (i) the adequate resources, knowledge and experience in the paper product market in the PRC contributed by Xiamen C&D Paper Group; and (ii) the resourceful and reliable sales channel from Xiamen C&D Paper Group, we are of the view and concur with the Directors' view that the entering into of the Paperboard Sales Framework Agreement offers the opportunity for UPPSD to broaden its business and promote products brand of UPPSD with the synergy with Xiamen C&D Paper Group and leverage on the industry leading position, the comprehensive value-added services and the sales network of Xiamen C&D Paper Group, and therefore the Paperboard Sales Framework Agreement is in the interest of the Company and the Shareholders as a whole.

### ***15.3 Principal terms of the Paperboard Sales Framework Agreement***

#### *15.3(a) Principal terms of the Paperboard Sales Framework Agreement*

Set out below are the principal terms mentioned in the Paperboard Sales Framework Agreement and advice from the Directors:

- |                         |  |
|-------------------------|--|
| Date:                   | 28 December 2021   |
| Parties:                | (1) UPPSD (as the vendor); and<br>(2) Xiamen C&D Paper (as the purchaser)  |
| Nature of transactions: | UPPSD will sell the Paperboard Products to Xiamen C&D Paper Group on a non-exclusive basis based on the quantity, unit price and specifications set out in the individual orders to be placed by Xiamen C&D Paper Group from time to time. |

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**Term:** The Paperboard Sales Framework Agreement has a fixed term from information generated over the four months ending 28 December 2021 to 31 March 2024.

**Pricing:** The unit price of the Paperboard Products will be determined with reference to the prevailing market price in the PRC for the same type of products and in accordance with the pricing policies of the Group made for independent third party customers as detailed in the sub-paragraph headed “Pricing policy” under the paragraph headed “Principal terms of the Paperboard Sales Framework Agreement” in the Letter from the Board.

In case of increase in the prevailing market price of the Paperboard Products or the raw material needed to produce the Paperboard Products before the Paperboard Products is delivered to Xiamen C&D Paper Group pursuant to an order, UPPSD is entitled to adjust the unit price of the Paperboard Products.

**Payment:** UPPSD shall deliver the Paperboard Products within one month upon receiving the payment from Xiamen C&D Paper Group.

The payment of the Paperboard Products shall be settled by way of telegraphic transfer.

For detailed terms of the Paperboard Sales Framework Agreement, please refer to the paragraph headed “Principal terms of the Paperboard Sales Framework Agreement” in the Letter from the Board.

### *15.3(b) Pricing basis of the Paperboard Sales Framework Agreement*

We have discussed with the Directors regarding the pricing basis under the Paperboard Sales Framework Agreement. We note that the unit price of the Paperboard Products will be determined with reference to the prevailing market price in the PRC for the same type of products and in accordance with the pricing policies of the Group made for independent third party customers. In this regard, we have discussed with the Directors on the pricing

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policy of the Paperboard Products to be supplied by UPPSD under the Paperboard Sales Framework Agreement and noted that the Group will compare:

- (i) the Prevailing Market Terms based on the market information collected by the Group through primarily, the prevailing market price from the Reference Site, and secondarily, its network (i.e. the core management team of UPPSD including Mr. Jacky Lam, Mr. Jin Shumin and Mr. Wang Guanyue, with over 20 years of experience in the paper industry, and Ms. Liu Yuanyuan, with over 10 years of experience in the paper industry, and therefore with the ability to make objective pricing policies for Paperboard Products). For details of the background of the Reference Site, please refer to the sub-paragraph headed “Pricing Policy” under the paragraph headed “Principal terms of the Paperboard Sales Framework Agreement” in the Letter from the Board.; and
- (ii) the Independent Products Pricing Terms.

Also, the Directors advised us that UPPSD will determine the final prices through comparison with the Prevailing Market Terms and Independent Products Pricing Terms from at least two independent customers of similar products, depending on the availability of such information at the time of transaction. Furthermore, the Directors confirmed that in any event, UPPSD will conduct such comparison before entering into the transaction with the connected person and will ensure that the pricing terms agreed with the connected person are in line with the prevailing market price and are in line with the pricing terms and policies applied to independent customers. Based on the above, we concur with the view of the Directors that the aforesaid pricing basis can safeguard that the prices of the Paperboard Products sold to Xiamen C&D Paper Group are no less favourable to the Group than those available from other independent customers for the same or similar products.

*15.3(c) Our view on the pricing basis*

On 1 August 2021, the PRC Court approved the UPPSD Bankruptcy Reorganisation plan with effect on the same day. Following the PRC Court’s approval of the UPPSD Bankruptcy Reorganisation plan, the Entrusted Operation Agreement was terminated and UPPSD had resumed its own operation without the Entrusted Operation. On 1 August 2021, UPPSD, Shandong Bairun and the UPPSD Bankruptcy Administrator entered into an agreement of termination to the Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement, pursuant to which the Entrusted Operation was terminated and UPPSD carries on its business operation on its own since 1 August 2021. As advised by the Directors, (i) since 1 August 2021, UPPSD has sold the paperboard products

to Xiamen C&D Paper and its subsidiaries (the “**Xiamen C&D Paper Group I3P Transactions**”); and (ii) the unaudited historical transaction amount for sales of Paperboard Products produced by UPPSD of the Group to Xiamen C&D Paper Group during the period from 1 August 2021 to the Latest Practicable Date amounted to approximately RMB157 million.

In order to compare the Company’s existing pricing records among Xiamen C&D Paper Group I3P Transactions and other independent customers’ transactions, we have requested the Company to provide the master list of all transactions conducted (i) between UPPSD and Xiamen C&D Paper Group; and (ii) UPPSD and other independent customers during the period from 1 August 2021 to the Latest Practicable Date (the “**Xiamen C&D Paper Group Sales Master List**”). The Xiamen C&D Paper Group Sales Master List stated (i) the details of each of the transactions conducted between UPPSD and Xiamen C&D Paper Group during the period from 1 August 2021 to the Latest Practicable Date, such as contract number, name of customer, product type, product specification, unit sales price, transaction volume, total amount of each transaction, etc.; (ii) the details of each of the transactions conducted between UPPSD and other independent customers during the period from 1 August 2021 to the Latest Practicable Date, such as contract number, name of customer, product type, product specification, unit sales price, transaction volume, total amount of each transaction, etc.; and (iii) the comparison between the weighted average unit sales price (the “**WAUP**”) of the Xiamen C&D Paper Group I3P Transactions and the WAUP of other independent customers’ transactions of the paperboard products (i.e. the coated duplex board and the kraft linerboard) during the period from 1 August 2021 to the Latest Practicable Date. Based on the Xiamen C&D Paper Group Sales Master List and after discussion with the Directors, we noted that

- (i) the WAUP of coated duplex board of Xiamen C&D Paper Group I3P Transactions represented a premium of approximately 3.4% over the WAUP of coated duplex board of other independent customers’ transactions; and
- (ii) the WAUP of kraft linerboard of Xiamen C&D Paper Group I3P Transactions represented a slight premium of approximately 0.2% over the WAUP of kraft linerboard of other independent customers’ transactions.

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Taking into account (i) the pricing basis of the Paperboard Sales Framework Agreement as discussed above in this paragraph can safeguard that the prices of the Paperboard Products to be sold to Xiamen C&D Paper Group are no less favourable to the Group than those available from other independent customers for the same or similar products; (ii) the historical Xiamen C&D Paper Group I3P Transactions demonstrate that the management of the Company has set the unit sales prices offered to Xiamen C&D Paper Group which are generally close to those offered to other independent customers; and (iii) the internal control measures set up for the Paperboard Sales Framework Agreement as discussed below as in this paragraph; we concur with the view of the Directors that the Group has adequate knowledge, experience and measures in place to ensure that the unit sales price of Paperboard Products to be sold to Xiamen C&D Paper Group are based on the prevailing market prices and not less favourable than those sold to Independent Third Parties, and therefore such pricing arrangement is on normal commercial terms and the transactions conducted under the Paperboard Sales Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

### *15.4 The Proposed Caps*

According to the Paperboard Sales Framework Agreement and the advice from the Directors, the table below shows the Proposed Caps for the three financial years ending 31 March 2024:

	<b>From the Effective Date to 31 March 2022 (RMB'000)</b>	<b>Financial year ending 31 March 2023 (RMB'000)</b>	<b>Financial year ending 31 March 2024 (RMB'000)</b>
The Proposed Caps	96,400	420,000	420,000

Pursuant to the Letter from the Board, the Proposed Caps under the Paperboard Sales Framework Agreement were determined based on (i) the estimated volume of Paperboard Products required by Xiamen C&D Paper Group from the Group for the three financial years (or period) ending 31 March 2024 with reference to its internal sales targets and expected market demand for its products; and (ii) the estimated unit price of the Paperboard Products, which was determined with reference to the trend of prevailing selling price of the Paperboard Products as published on the Reference Site for the period from 1 October 2020 to 30 September 2021 (the “**Published Benchmark Price**”).

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We have discussed with the Directors and been advised that the estimated annual production capacity of UPPSD is 460,000 tons, whereas the annual sales volume of the paper products of Xiamen C&D Paper was more than 4 million tons in 2020. The Directors further advised us that (i) considering Xiamen C&D Paper's leading position in the supply chain of paper and pulp products with a wide network comprising over 5,000 customers and over 400 suppliers, the proposed caps are determined after arm's length negotiations based on the existing customer needs and sales targets of Xiamen C&D Paper Group and production capacity of UPPSD during the past record periods; and (ii) the estimation of the Proposed Caps is calculated based on the estimated volume of Paperboard Products required by Xiamen C&D Paper Group from the Group for the three financial years (or period) ending 31 March 2024 with reference to its internal sales targets and expected market demand for its products. The Directors are of the view that UPPSD could leverage on the industry leading position, the comprehensive value-added services and the sales network of Xiamen C&D Paper Group in the forestry, pulp and paper products distribution industry to expand its income stream and enhance its sales penetration. As stated in the Letter from the Board, the parties have also considered the assumption that during the term of the Paperboard Sales Framework Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the parties of the Paperboard Sales Framework Agreement. Furthermore, we have discussed with the Directors on the Published Benchmark Price and been advised that the twelve months of review period from 1 October 2020 to 30 September 2021 is fair and representative because it demonstrates the recent market price of the Paperboard Products prior to the Paperboard Sales Framework Agreement.

Having considered that (i) the Paperboard Sales Framework Agreement is entered in the ordinary and usual course of the Group's business; (ii) the pricing basis of the unit sales price of Paperboard Products to be sold to Xiamen C&D Paper Group are based on the prevailing market price, not less favourable than those sold to Independent Third Parties, on normal commercial and fair and reasonable as discussed above in this paragraph; (iii) the outlook of paper product market in the PRC remains positive as discussed in the paragraph headed "4. Overview of paper product market in the PRC" above in this letter; (iv) the Proposed Caps are determined with respect to the based on the estimated volume of Paperboard Products required by Xiamen C&D Paper Group from the Group for the three financial years (or period) ending 31 March 2024 with reference to its internal sales targets and expected market demand for its products; and (v) the Published Benchmark Price is fair and representative, we are of the view and concur with the Directors' view that the Proposed Caps are fair and reasonable.

*15.5 Internal control for implementing the Paperboard Sales Framework Agreement*

As stated in the Letter from the Board and according to the Directors, the Group will implement the following internal control measures to ensure that the transactions contemplated under the Paperboard Sales Framework Agreement will be conducted within the framework thereof:

- (i) The head office of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group. Each department and subsidiary of the Group shall submit an information sheets for each connected transaction, namely Connected transaction checklist\* (關連交易審批確認單) and List of information of parties involved\* (合作交易方公司信息備案表), setting out its terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least two independent third parties to the Group, to the account department of the Company and the secretary to the Board for review and approval. The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted;
- (ii) The joint company secretaries of the Company are responsible for maintaining a list of connected parties and circulates to each of the subsidiaries every half year;
- (iii) The joint company secretaries of the Company monitor the carrying out of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group to ensure compliance with the Listing Rules, and is responsible for reporting to the audit committee of the Company (which comprises all independent non-executive Directors) on a half year basis;
- (iv) Through reviewing the information gathered from the finance department of the Company, the external auditor engaged by the Company will report to the Board annually on the Paperboard Sales Framework Agreement, confirming whether (a) the relevant transactions under the Paperboard Sales Framework Agreement have received approval by the Board; (b) price charged for the transactions selected were in accordance with the pricing terms set out in the Paperboard Sales Framework Agreement and/or the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and (c) the continuing connected transactions have not exceed the relevant Proposed Caps; and

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- (v) The independent non-executive Directors will review the transactions under the Paperboard Sales Framework Agreement annually to ensure that the relevant transactions are entered (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the Paperboard Sales Framework Agreement governing them on terms that are fair and reasonable and in the interest of the Company and Shareholders as a whole.

In view of the above measures, we considers that there are adequate and enforceable internal control measures in place regarding the continuing connected transactions contemplated under the Paperboard Sales Framework Agreement.

### RECOMMENDATION

Despite the dilution effect of the Restructuring, having considered the principal factors and reasons discussed above, in particular,

- (i) the Resumption will only happen if the proposed Restructuring is implemented;
- (ii) the aggregate gross proceeds from the Subscription and the Placement will be applied for discharging the debts of the Company under the Listco Scheme in the amount of approximately HK\$3,046 million and paying the Restructuring Expenses which improve the Group's financial position;
- (iii) the significant consolidated net liabilities position of the Group as at 31 March 2021 and thus is imminent to improve the financial position of the Company by introducing the Investor for the Restructuring, which constitutes the Special Deals, will enable the Group to settle its outstanding indebtedness in a formal and orderly manner;
- (iv) all claims and liabilities of the Company shall be discharged in full upon the taking effect of the Listco Scheme;
- (v) the creditors' claims admitted under the UPPSD Bankruptcy Reorganisation would be orderly arranged which would result in an orderly manner of the Group Reorganisation;
- (vi) the Special Deal I and Special Deal III are to facilitate the implementation of the Listco Scheme. The Restructuring will not proceed without the consent to the Special Deal I and III by the Executive;
- (vii) the Special Deal II is to facilitate the implementation of the UPPSD Bankruptcy Reorganisation. The Restructuring will not proceed without the consent to the Special Deal II by the Executive;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (viii) the outlook of the paper product market in the PRC would remain positive in the near future and in turn supports the business and financial performance of the Retained Group;
- (ix) for general reference only, the discount of the Subscription Price to the theoretical closing price as adjusted for the effect of the Capital Reorganisation on the Last Trading Day is within range of discount of subscription price to closing price on last trading day of the Proposal Comparables;
- (x) the maximum dilution impact of the Restructuring is within the range of the Proposal Comparables and therefore the maximum dilution impact from the proposed Restructuring is no less unfavourable as compared with the Proposal Comparables;
- (xi) the entering of the Paperboard Sales Framework Agreement is in the ordinary and usual course of business of the Group; and
- (xii) the terms of the Paperboard Sales Framework Agreement (including the Proposed Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole,

we consider (i) although the entering of the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement) is not in the ordinary and usual course of business of the Group, the proposed transactions (including the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation and the Resumption), the grant of the Specific Mandates contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Whitewash Waiver and the Special Deals are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole; (ii) the entering of the Paperboard Sales Framework Agreement is in the ordinary and usual course of business of the Group; and (iii) the terms of the Paperboard Sales Framework Agreement (including the Proposed Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the

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Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation, the Resumption and the grant of the Specific Mandates contemplated under the Restructuring Agreement (as further amended and supplemented by the Supplemental Agreement to the Restructuring Agreement), the Whitewash Waiver, the Special Deals, the Paperboard Sales Framework Agreement (including the Proposed Caps) and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Dakin Capital Limited**  
**Tam Kin Fong**  
*Managing Director*

*Note:* Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.

\* *for identification purpose only*

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group and notes to the consolidated financial statements for the last three financial years ended 31 March 2019, 31 March 2020 and 31 March 2021 and the six months ended 30 September 2020 and 30 September 2021 are disclosed in the annual results announcements of the Company for each of the three financial years ended 31 March 2019, 31 March 2020 and 31 March 2021, and the interim results announcements of the Company for each of the six-month periods ended 30 September 2020 and 30 September 2021, respectively.

These annual results announcements and interim results announcements are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.samsonpaper.com>). Please refer to the hyperlinks as stated below:

- (a) Annual results announcement for the year ended 31 March 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0618/ltn20190618383.pdf>

- (b) Annual results announcement for the year ended 31 March 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1216/2021121600011.pdf>

- (c) Annual results announcement for the year ended 31 March 2021:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1216/2021121600015.pdf>

- (d) Interim results announcement for the six months ended 30 September 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1216/2021121600013.pdf>

- (e) Interim results announcement for the six months ended 30 September 2021:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1216/2021121600017.pdf>

## 2. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial results and positions of the Company for the three financial years ended 31 March 2019, 2020 and 2021 and the six months ended 30 September 2020 and 2021 extracted from the annual results announcements of the Company for the three years ended 31 March 2019, 2020 and 2021, and the interim results announcements of the Company for the six months ended 30 September 2020 and 2021, respectively.

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 March			For the six months ended 30 September	
	2019 HK\$'000 (Audited)	2020 HK\$'000 (Audited)	2021 HK\$'000 (Audited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>Continuing operations</b>					
<b>Revenue</b>	5,907,821	4,376,760	1,713,476	2,129,610	269,881
Cost of sales	(5,347,831)	(3,967,862)	(1,686,558)	(2,168,829)	(246,430)
Gross profit/(loss)	559,990	408,898	26,918	(39,219)	23,451
Fair value gains/(losses) on investment properties	31,716	(15,900)	(17,300)	—	—
Other gains and income, net	64,618	55,816	19,889	20,776	6,542
Gain on re-consolidation of a deconsolidated subsidiary	—	—	—	—	451,012
Selling expenses	(213,882)	(145,090)	(109,657)	(103,324)	(1,447)
Administrative expenses	(233,318)	(212,462)	(183,764)	(178,384)	(39,176)
Reversal for impairment losses/(impairment losses) of financial assets, net	1,463	(543,535)	(884,828)	(1,156,807)	(18,119)
Impairment losses of property, plant and equipment	—	(25,801)	—	(760,249)	—
Other operating income/ (expenses), net	406	283	(60)	(20,551)	(6,521)
Recognition of financial guarantee liabilities	—	—	(2,284,136)	(2,211,472)	(15,722)
Gain/(loss) on deconsolidation/disposal/ deregistration of subsidiaries	—	—	868,311	1,807,990	(177,798)
Finance costs	(71,174)	(79,454)	(30,224)	(34,936)	(68)
<b>Profit/(loss) before tax</b>	139,819	(557,245)	(2,594,851)	(2,676,676)	222,154
Income tax (expense)/credit	(20,142)	(30,616)	(3,244)	(3,450)	8,970

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	For the year ended 31 March			For the six months ended 30 September	
	2019	2020	2021	2020	2021
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
<b>Profit/(loss) for the year/ period from continuing operations</b>	119,677	(587,861)	(2,598,095)	(2,680,126)	231,124
<b>Discontinued operations</b>					
Profit/(loss) for the year/ period from discontinued operations	—	44,909	(1,426,494)	(778,092)	(66,008)
<b>Profit/(loss) for the year/ period</b>	119,677	(542,952)	(4,024,589)	(3,458,218)	165,116
Attributable to:					
Owners of the Company	109,206	(550,566)	(3,768,764)	(3,219,683)	165,116
Non-controlling interests	10,471	7,614	(255,825)	(238,535)	—
	119,677	(542,952)	(4,024,589)	(3,458,218)	165,116
<b>Other comprehensive income, net of tax:</b>					
<i>Items that will not be reclassified to profit or loss:</i>					
Revaluation of land and buildings, net of deferred tax	10,471	1,683	—	—	—
Revaluation of right-of-use assets, net of deferred tax	—	12,910	—	—	—
Changes in the fair value of financial assets at fair value through other comprehensive income ("FVTOCI")	166	365	131	—	—
<i>Items that may be reclassified to profit or loss:</i>					
Exchange differences on translating foreign operations	(249,744)	(223,733)	154,957	157,639	141,212
Exchange reserves reclassified to profit or loss on disposal/deconsolidation/ deregistration of subsidiaries	—	—	179,011	8,880	(96,505)

	For the year ended 31 March			For the six months ended 30 September	
	2019 HK\$'000 (Audited)	2020 HK\$'000 (Audited)	2021 HK\$'000 (Audited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>Other comprehensive income for the year/period, net of tax</b>	(239,107)	(208,775)	334,099	166,519	44,707
<b>Total comprehensive income for the year/period</b>	(119,430)	(751,727)	(3,690,490)	(3,291,699)	209,823
Attributable to:					
Owners of the Company	(104,923)	(742,613)	(3,438,308)	(3,052,461)	209,823
Non-controlling interests	(14,507)	(9,114)	(252,182)	(239,238)	—
	(119,430)	(751,727)	(3,690,490)	(3,291,699)	209,823
<b>Earnings/(loss) per share</b>					
From continuing and discontinued operations					
Basic (In cents)	HK9.2	HK(48.3)	HK(330.3)	HK(282.2)	HK14.5
Diluted (In cents)	HK8.6	HK(48.3)	HK(330.3)	HK(282.2)	HK13.0
From continuing operations					
Basic (In cents)	HK9.2	HK(51.5)	HK(227.7)	HK(214.0)	HK20.3
Diluted (In cents)	HK8.6	HK(51.5)	HK(227.7)	HK(214.0)	HK18.2
Dividends					
Interim per ordinary share (In cents)	HK0.4	HK0.4	—	—	—
Interim per preference share (In cents)	HK0.4	HK0.4	—	—	—
Final per ordinary share (In cents)	HK2.0	—	—	—	—
Final per preference share (In cents)	HK2.0	—	—	—	—

The Company did not declare any dividend for each of the three years ended 31 March 2021, and the six months ended 30 September 2020 and 30 September 2021.

## Financial position of the Group

	As at 31 March		As at 30 September	
	2019 HK\$'000 (Audited)	2020 HK\$'000 (Audited)	2021 HK\$'000 (Audited)	2021 HK\$'000 (Unaudited)
<b>Assets and liabilities</b>				
Non-current assets	2,989,026	2,929,083	184,811	1,127,805
Current assets	3,533,818	2,929,542	912,553	947,568
Current liabilities	3,183,004	4,227,146	3,217,843	3,630,244
Net current assets/(liabilities)	350,814	(1,297,604)	(2,305,290)	(2,682,676)
Total assets less current liabilities	3,339,840	1,631,479	(2,120,479)	(1,554,871)
Non-current liabilities	1,153,517	131,838	57,715	413,500
Net assets/(liabilities)	2,186,323	1,499,641	(2,178,194)	(1,968,371)
Equity	1,959,883	1,257,709	(2,180,599)	(1,970,776)
Non-controlling interests	226,440	241,932	2,405	2,405
Total Equity/(Capital Deficiency)	2,186,323	1,499,641	(2,178,194)	(1,968,371)

## 3. STATEMENT OF INDEBTEDNESS OF THE GROUP

**Indebtedness**

At the close of business on 31 October 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the indebtedness of the Group was as follows:

1. Bank borrowings of approximately HK\$8.1 million which were secured by charges over the Group's certain land and buildings;
2. Bank borrowings of approximately HK\$402.8 million which were unsecured and guaranteed by the Company;
3. Lease liabilities of approximately HK\$0.6 million in respect of the Group's right-of-use assets;
4. Other borrowings of approximately HK\$301.9 million which were secured by charges over the Group's certain land and buildings and the shares of SPV1, SPV2 and UPPSD.

**Financial guarantee liabilities**

At the close of business on 31 October 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had issued certain guarantees of approximately HK\$2,342.6 million to some banks and a supplier in respect of banking and trade facilities granted to a deconsolidated subsidiary of the Company. The maximum liability of the Group under guarantees as at 31 October 2021 amounted to HK\$2,744.3 million.

Save as disclosed above, and apart from intra-group liabilities and normal accounts payables in the ordinary course of business of the Group, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowing (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, any other mortgages and charges or any other material contingent liabilities or guarantees.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 October 2021 and up to the Latest Practicable Date.

**4. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the financial resources available to the Group, the Group has sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

**A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION AND CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE  
GROUP**

The accompanying unaudited pro forma consolidated statement of financial position as at 30 September 2021 and unaudited pro forma consolidated statement of profit or loss of the Group for the six months ended 30 September 2021 (the “Statement”) has been prepared as if UPPSD was retained in the Group and the Excluded Subsidiaries were transferred to the SchemeCo (the “Retained Group”), assuming the Resumption has been completed on 30 September 2021 to illustrate the effect of the consolidated statement of the financial position of the Retained Group as at 30 September 2021 and the consolidated statement of profit or loss of the Retained Group for the six months ended 30 September 2021.

The Statement has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 September 2021 and the unaudited consolidated statement of profit of loss of the Group for the six months ended 30 September 2021 after making certain unaudited pro forma adjustments resulting from the proposed Restructuring assuming its completion on 30 September 2021.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Retained Group that would have been attained had the proposed Restructuring actually occurred on 30 September 2021. Furthermore, the Statement does not purport to predict the Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in the interim result announcement of the Group for the six months ended 30 September 2021 and other financial information included elsewhere in the Circular.

For the purpose of presenting the Statement, the unaudited pro forma consolidated statement of financial position as at 30 September 2021 is translated at the exchange rate of RMB1 = HK\$1.2077.

**APPENDIX II**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE GROUP**

	As at		Pro-forma adjustment						Adjusted
	30 September		(Unaudited)						balance
	2021								(Unaudited)
	The Group								
(Unaudited)							(Unaudited)		
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5a)	(Note 5b)	(Note 6)	(Note 7)		
<b>Non-current assets</b>									
Property, plant and equipment	900,500					(17,417)		883,083	
Right-of-use assets	222,828					(626)		222,202	
Other intangible assets	206							206	
Financial assets at fair value through other comprehensive income ("FVTOCI")	1,831					(1,831)		—	
Deferred tax assets	2,440					(2,440)		—	
	<u>1,127,805</u>							<u>1,105,491</u>	
<b>Current assets</b>									
Inventories	202,067							202,067	
Accounts and other receivables	549,979					(246,057)		303,922	
Taxation recoverable	7,628					(7,628)		—	
Bank and cash balances	187,894	119,872	6,850		(126,722)	(132,882)		55,012	
	<u>947,568</u>							<u>561,001</u>	
<b>Current liabilities</b>									
Accounts and other payables	605,833					(98,576)		507,257	
Contract liabilities	17,606							17,606	
Taxation payable	263					(263)		—	
Borrowings	706,069					(404,144)		301,925	
Lease liabilities	615					(615)		—	
Financial guarantee liabilities	2,299,858			(2,299,858)				—	
	<u>3,630,244</u>							<u>826,788</u>	
<b>Net current liabilities</b>	<u>(2,682,676)</u>							<u>(265,787)</u>	
<b>Total assets less current liabilities</b>	<u>(1,554,871)</u>							<u>839,704</u>	
<b>Non-current liabilities</b>									
Accounts and other payables	361,518							361,518	
Borrowings	6,816					(6,816)		—	
Deferred tax liabilities	45,166					(23,095)		22,071	
	<u>413,500</u>							<u>383,589</u>	
<b>NET (LIABILITIES)/ASSETS</b>	<u>(1,968,371)</u>							<u>456,115</u>	
<b>Equity</b>									
Share capital	127,315	(108,403)	49,511	2,829			12,024	83,276	
Reserves	(2,098,091)	108,403	70,361	4,021	2,299,858	(126,722)	127,033	372,839	
	(1,970,776)							456,115	
Non-controlling interests	2,405					(2,405)		—	
<b>(Capital deficiency)/total equity</b>	<u>(1,968,371)</u>							<u>456,115</u>	

**APPENDIX II**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE GROUP**

	For the six months ended 30 September 2021						Adjusted balance (Unaudited) HK\$'000
	The Group (Unaudited) HK\$'000 (Note 1)		Pro-forma adjustment (Unaudited)				
	HK\$'000 (Note 5a)	HK\$'000 (Note 5b)	HK\$'000 (Note 6)	HK\$'000 (Note 7)	HK\$'000 (Note 8)	HK\$'000	
Continuing operations							
<b>Revenue</b>	269,881					(1,812) 268,069	
Cost of sales	<u>(246,430)</u>					2,100 <u>(244,330)</u>	
<b>Gross profit</b>	23,451					23,739	
Other gains and income, net	6,542					(2,563) 3,979	
Gain on re-consolidation of a deconsolidated subsidiary	451,012					451,012	
Gain on disposal of the Excluded Subsidiaries	—	2,299,858	(91,722)	127,033	(29,112)	2,306,057	
Selling expenses	(1,447)					1,087 (360)	
Administrative expenses	(39,176)		(35,000)			19,955 (54,221)	
Impairment losses of financial assets, net	(18,119)					16,945 (1,174)	
Other operating expenses	(6,521)					1,615 (4,906)	
Recognition of financial guarantee liabilities	(15,722)					(15,722)	
Loss on deconsolidation/deregistration of subsidiaries	<u>(177,798)</u>					177,798 <u>—</u>	
<b>Profit from operations</b>	222,222					2,708,404	
Finance costs	<u>(68)</u>					<u>(68)</u>	
<b>Profit before tax</b>	222,154					2,708,336	
Income tax — credit	<u>8,970</u>				(8,755)	<u>215</u>	
<b>Profit for the period from continuing operations</b>	231,124					2,708,551	
<b>Loss for the period from discontinued operations</b>	<u>(66,008)</u>				(206,370)	<u>(272,378)</u>	
<b>Profit for the period</b>	<u>165,116</u>					<u>2,436,173</u>	

*Notes:*

1. The consolidated statement of financial position as at 30 September 2021 and the consolidated statement of the profit or loss of the Group for the six months ended 30 September 2021 is extracted from the Group's published interim result announcement for the six months ended 30 September 2021 dated 15 December 2021.
2. The adjustment represents the proposed Capital Reduction with references to step (a) of "The Capital Reorganisation" on page 34 of this circular. The issued ordinary share capital of the Company shall be reduced by cancelling the paid up capital of the Company to the extent of HK\$0.095 on each of the issued Existing Shares such that the par value of each issued Existing Share shall be reduced from HK\$0.10 to HK\$0.005.

The par value of share capital is reduced to HK\$0.005, which is equivalent to reducing current ordinary capital of approximately HK\$114,108,000 to approximately HK\$5,705,000 (a reduction of approximately HK\$108,403,000)). The total amount of share capital after the reduction, with the preference shares of approximately HK\$13,206,000, would be approximately HK\$18,912,000.

With references to step (b) "The Authorised Share Capital Diminution" of "The Capital Reorganisation" on page 34 of this circular, upon the Capital Reduction becoming effective, all the authorized but unissued ordinary share capital shall be cancelled in the entirety.

3. The adjustment represents the effect of the Subscription with references to step (d), "Share Consolidation" and step (e), "The Increase in Authorised Share Capital" of "the Capital Reorganisation" on page 34, and "The Subscription" on page 38 of this circular.

Upon the Capital Reduction, the Authorised Share Capital Diminution and the Share Premium Cancellation becoming effective, every ten (10) existing issued and unissued Shares of HK\$0.005 each shall be consolidated into one (1) New Share of HK\$0.05 each, and upon the Share Consolidation becoming effective, the Company's authorised ordinary share capital will be increased from approximately HK\$5,710,000 divided into 114,107,582 New Shares of HK\$0.05 each to approximately HK\$100,000,000 divided into 2,000,000,000 New Shares of HK\$0.05 each.

The Company shall then issue and allot, and the Investor shall subscribe for 990,220,583 Subscription Shares at the Subscription Price of HK\$0.121056 per Subscription Share, for a total consideration of approximately HK\$119,872,000. Of those, approximately HK\$49,511,000 will credit to Share Capital per par value of HK\$0.05, and the remaining approximately HK\$70,361,000 will be credited to Share Premium.

4. The adjustment represents the proposed Placement with references to "Placement" on page 45 of this circular, the Placing Agreement for Placement has been entered into amongst the Company, the Investor and Placing Agent for Placement, pursuant to which the Placing Agent for Placement undertakes to place, on a fully underwritten basis, 56,584,032 Placement Shares to no less than six Placee(s) at the Placement Share Price of HK\$0.121056 per Placement Share. The gross proceeds from the Placement will be approximately HK\$6,850,000, and shall be used for discharging part of the debts of the Company under the Listco Scheme.
- 5(a). The adjustment represents the transfer of financial guarantee liabilities with reference to part (a) of "The Listco Scheme" on page 50 of this circular, all the claims of the Scheme Creditors shall be fully and finally discharged under the Listco Scheme by the SchemeCo by way of (i), the SchemeCo, which shall be set up by the Scheme Administrators upon the Listco Scheme becoming effective, shall accept and assume an equivalent liability in place of the Company in respect of the claims of creditors of the Company; and (ii) in return, the Scheme Creditors will be entitled to receive dividends (from the realization of the assets of the SchemeCo) pursuant to the Listco Scheme in full and final settlement to the Scheme Creditors' claims against the SchemeCo.

- 5(b). The adjustment represents the use of the proceeds from the Subscription and the Placement, with references to part (d)(i) and (iii) of “The Listco Scheme” on page 50 of this circular, transferring all the proceeds of approximately HK\$126,722,000 to the SchemeCo after deducting the Restructuring Expenses of approximately HK\$35,000,000.
6. The adjustment represents the transfer of Excluded Subsidiaries to SchemeCo with reference to part (d) of “The Group Reorganisation” on page 41 of this circular, upon the Closing, to effect the transfer of the Excluded Subsidiaries to the SchemeCo for the benefit of the Scheme Creditors by transferring the entire equity interests of Samson Paper (BVI) Ltd (being the holding company of the Excluded Subsidiaries and a directly wholly-owned subsidiary of the Company) held by the Company to the SchemeCo at a nominal consideration of HK\$1.0, and proceeds from realisation of any assets of the Excluded Subsidiaries will be distributed for the benefit of the Scheme Creditors under the ListCo Scheme.

HK\$'000

**Transfer of asset of the Excluded Subsidiaries to the SchemeCo**

Property, plant and equipment	(17,417)
Right-of-use assets	(626)
Financial assets at FVTOCI	(1,831)
Deferred tax assets	(2,440)
Accounts and other receivables	(246,057)
Tax recoverable	(7,628)
Bank and cash balances	(132,882)
	<u>(408,881)</u>

**Transfer of liabilities of Excluded Subsidiaries to the SchemeCo**

Accounts and other payables	98,576
Tax payable	263
Borrowings	410,960
Lease liabilities	615
Deferred tax liabilities	23,095
	<u>533,509</u>
Less: release of non-controlling interest	2,405
Gain on disposal of the Excluded Subsidiaries	<u>127,033</u>

7. With references to part (d)(ii) of “The Listco Scheme” on page 50 of this Circular, the adjustment represents the 240,482,142 Creditors Shares to be issued by the Company to the SchemeCo of the Issue Price of the Creditors Shares (at HK\$0.121056 per share) for the benefit of the Scheme Creditors as part of the ListCo Scheme. Of those, approximately HK\$12,024,000 will credit to Share Capital per par value of HK\$0.05, and the remaining approximately HK\$17,088,000 will be credited to Share Premium. An amount of approximately HK\$29,112,000 will be debited to loss on disposal/transfer of the Excluded Subsidiaries that the 240,482,142 Creditors Shares to be allotted and issued by the Company to the SchemeCo.
8. The adjustment represents the reclassification of profit or loss to discontinued operations, namely paper trading segment and others segment, upon transfer of the Excluded Subsidiaries to the SchemeCo pursuant to the Restructuring Agreement.

**B. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED  
NET TANGIBLE ASSETS OF THE RESTRUCTURED GROUP AS AT 30  
SEPTEMBER 2021**

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Paragraph 13 of Appendix 1B and Paragraph 29 of Chapter 4 of the Listing Rules is set out below to illustrate the effects of the proposed resumption on the consolidated net tangible assets of the Group as if the events and transaction described in the Circular had taken place on 30 September 2021.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and because of its hypothetical nature, may not give a true picture of the financial position of the Group following the proposed resumption.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible liabilities of the Group as at 30 September 2021, adjusted as described below:

		<i>HK\$'000</i>
Consolidated net liabilities of the Group	<i>(Note 1)</i>	(1,968,371)
Less: Intangible assets	<i>(Note 2)</i>	<u>(206)</u>
Consolidated net tangible liabilities of the Group		<u><u>(1,968,577)</u></u>
		<i>HK\$</i>
Consolidated net tangible liabilities of the Group per share	<i>(Note 3)</i>	(1.55)
		<i>HK\$'000</i>
Unaudited pro forma adjusted consolidated net assets of the Retained Group	<i>(Note 4)</i>	456,115
Less: Intangible assets	<i>(Note 2)</i>	<u>(206)</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Retained Group		<u><u>455,909</u></u>
		<i>HK\$</i>
Unaudited pro forma adjusted consolidated net tangible assets of the Retained Group per share	<i>(Note 5)</i>	0.32

*Notes:*

- (1) The consolidated net tangible liabilities of the Group as at 30 September 2021 is extracted from the Group's published interim result announcement for the six months ended 30 September 2021 dated 15 December 2021.
- (2) The adjustment represents the exclusion of the intangible assets of the Group of approximately HK\$206,000 as at 30 September 2021.
- (3) The number of shares used for the calculation of the consolidated net tangible liabilities of the Group per share is 1,273,140,762, being the number of issued shares and the assuming conversation of Preference Share as at 30 September 2021.
- (4) The unaudited pro forma adjusted consolidated net assets of the Restructured Group as at 30 September 2021 is extracted from the unaudited pro forma consolidated statement of financial position of the Restructured Group.
- (5) The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Retained Group per share is 1,414,600,832, including the effect of the completion of the Share Consolidation, the Share Subscription, the Placement Share, the Issuance of Scheme Creditors Shares and the assuming conversation of Preference Share. The number of shares is calculated as follows:

<i>Number of shares in issued as at 30 September 2021</i>	<i>1,141,075,827</i>
<i>Share Consolidation (refer to part A note 3)</i>	<i>(1,026,968,245)</i>
<i>Share Subscription (refer to part A note 3)</i>	<i>990,220,583</i>
<i>Placement Share (refer to part A note 4)</i>	<i>56,584,032</i>
<i>Issuance of Scheme Creditors Shares (refer to part A note 5(a))</i>	<i>240,482,142</i>
<i>Assuming conversion of Preference Share after considering the effect of Share Consolidation</i>	<u><i>13,206,493</i></u>
	<u><u><i>1,414,600,832</i></u></u>

- (6) Apart from the above, no adjustments have been made to the unaudited pro forma statement of the adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Retained Group entered into subsequent to 30 September 2021.

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.*

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The Board of Directors  
Samson Paper Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Samson Paper Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 September 2021, the pro forma consolidated statement of profit or loss for the six months ended 30 September 2021 and the pro forma adjusted consolidated net tangible assets as at 30 September 2021 and related notes as set out on pages II-1 to II-7 of the circular issued by the Company dated 31 December 2021 (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix II on page II-1 to II-7 to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed restructuring of the Company as if the events and transactions described in the Circular had taken place at 30 September 2021, on the Group’s financial performance for the six months ended 30 September 2021 and on the Group’s net tangible assets as if the events and transactions described in the Circular had taken place as at 30 September 2021. As part of this process, information about the Group’s financial position

and financial performance has been extracted by the Directors from the Group's consolidated financial statements as included in the interim report for the six months ended 30 September 2021.

### **Directors' Responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in the Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants HKICPA.

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2021 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**RSM Hong Kong**

*Certified Public Accountants*

Hong Kong

31 December 2021

## 1. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Investor and the Concert Party Group and the proposed Directors), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

The directors of the Investor, namely Mr. Cheng Dongfang, Mr. Shi Yaofeng and Mr. Li Shengfeng, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular (other than those relating to the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

The directors of Xiamen C&D Corporation, namely Huang Wenzhou, Wang Qin, Pan Ziwan, Zhao Chengmin, Lin Yiqiang, Chen Dongxu, Zhao Shenghua and Shi Zhen and the sole director of Zhejiang Xinshengda, namely Li Shengfeng, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular (other than those relating to the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Capital Reorganisation were and are expected to be as follows:

	Before completion of the Capital Reorganisation		After completion of Capital Reorganisation	
	Authorised	Issued	Authorised	Issued
<b>Ordinary Shares</b>				
No. of shares	1,456,913,987	1,141,075,827	2,000,000,000	114,107,582
Par value	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.05 each</u>	<u>HK\$0.05 each</u>
Total (HK\$)	<u>145,691,398.70</u>	<u>114,107,582.70</u>	<u>100,000,000.00</u>	<u>5,705,379.10</u>
<b>Preference Shares</b>				
No. of shares	143,086,013	132,064,935	143,086,013	132,064,935
Par value	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>	<u>HK\$0.1 each</u>
Total (HK\$)	<u>14,308,601.30</u>	<u>13,206,493.50</u>	<u>14,308,601.30</u>	<u>13,206,493.50</u>

The Subscription Shares, Creditors' Shares and Placement Shares (when fully paid and allotted) will rank *pari passu* in all respects among themselves and the Shares in issue as at the date of allotment and issuance of the Subscription Shares, Creditors' Shares and Placement Shares, including all rights to all future dividends or distributions, which may be declared, made or paid by the Company on or after the date of allotment and issuance of the Subscription Shares, Creditors' Shares and Placement Shares, as well as rights to voting and interest in capital. As at the Latest Practicable Date, there was no arrangements under which future dividends are waived or agreed to be waived.

Subject to as provided in the Bye-Laws of the Company and the applicable laws, the Company shall not alter the rights attached to the Shares, the New Shares, the Placement Shares, the Subscription Shares, and the Creditors' Shares without passing a special resolution by the Shareholders.

As at the Latest Practicable Date, save for the Existing Shares and the Preference Shares, no share, option, warrant, conversion right or any equity or debt securities of the Company is outstanding or is proposed to be issued for cash or otherwise and none of the Directors, proposed Directors, promoters or experts have received any commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the proposed Capital Reorganisation, Subscription, Placement and the Listco Scheme. The Company has not issued any new Shares since 31 March 2021, being the latest financial year end.

Save as disclosed in the paragraph headed “9. Material Contracts” in this appendix, the Group does not have any charges, mortgages or any other contingent liabilities or guarantees.

The Shares are listed on the main board of the Stock Exchange. None of the equity or debt securities of the Company is listed or dealt in any other stock exchange and listing or permission to deal in the Shares or loan capital of the Company is not being, or proposed to be, sought on any other stock exchange.

As at the Latest Practicable Date, other than the Capital Reorganisation proposed to be implemented, none of the capital of any member of the Group (i) has been altered since 31 March 2021, being the date to which the latest published audited accounts of the Company were made up, or (ii) is under option, or agreed conditionally or unconditionally to be put under option.

### **3. DISCLOSURE OF INTEREST**

#### **(a) Interests of Directors**

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code; or (iv) which were required to be disclosed under the Takeovers Code.

As at the Latest Practicable Date, except for disclosed in the sub-section headed “Board Composition of the Company and Proposed Appointment of Proposed Directors” in the “Letter From the Board” section of this circular, none of the Directors or proposed Directors was a director or employee of a company which had any interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of part XV of the SFO.

As at the Latest Practicable Date, the Company’s board of directors comprises: two executive Directors namely Mr. Choi Wai Hong, Clifford and Mr. Lau Wai Leung, Alfred; one independent non-executive Director, namely Mr. Leung Vincent Gar-gene.

**(b) Interests of Shareholders**

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register maintained by the Company pursuant to section 336 of the SFO.

**(i). Long position in shares of the Company***Ordinary shares of HK\$0.10 each*

	Capacity	Number of ordinary shares beneficially held			Total	Percentage
		Personal interest	Corporate interest	Family interest		
Mr. LEE Seng Jin	Beneficial owner	128,459,688	688,533,247 <i>(note)</i>	33,425,112	850,418,047	74.53%
Ms. SHAM Yee Lan, Peggy	Beneficial owner	1,145,112	32,280,000	816,992,935	850,418,047	74.53%
Mr. CHOW Wing Yuen	Beneficial owner	1,080,000	—	—	1,080,000	0.09%

*Convertible non-voting preference shares ("CP shares") of HK\$0.10 each*

	Capacity	Number of CP shares beneficially held			Total	Percentage
		Personal interest	Corporate interest	Family interest		
Mr. LEE Seng Jin	Beneficial owner	—	132,064,935 <i>(note)</i>	—	132,064,935	100.00%

*Note:* The 688,533,247 ordinary shares and 132,064,935 CP shares are held by Quinselle Holdings Limited which is wholly owned by Mr. Lee Seng Jin. Mr. Lee Seng Jin therefore deemed under the SFO to be interested in such Shares and CP Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the shares or underlying shares or debentures of, or had been granted, or exercised any rights to subscribe for shares (or warrants or debentures, if applicable) of, the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those interests disclosed above, the Directors and chief executives of the Company also hold shares of certain subsidiaries of the Company solely for the purpose of ensuring that the relevant subsidiary has more than one member.

***(ii). Short positions in shares and underlying shares of the Company***

None of the Directors and the chief executive of the Company or their associates had any short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

***(iii). Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares of the Company***

As at the Latest Practicable Date, the interests and short positions of the shareholders of the Company other than a Director or chief executives of the Company and their associates, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under Section 336 of the SFO are as follows:

*Long position in ordinary shares of HK\$0.10 each in the Company*

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Percentage</b>
Quinselle Holdings Limited <i>(note)</i>	688,533,247	60.34%

*Long position in CP shares of HK\$0.10 each in the Company*

<b>Name</b>	<b>Number of CP shares</b>	<b>Percentage</b>
Quinselle Holdings Limited <i>(note)</i>	132,064,935	100.00%

*Note:* Quinselle Holdings Limited is a company wholly owned by Mr. Lee Seng Jin.

Save as disclosed above, the register which is required to be kept under Section 336 of the SFO shows that the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company as at the Latest Practicable Date.

#### 4. MARKET PRICES

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2020. Accordingly, information about the closing prices of the Shares on the Stock Exchange on the Latest Practicable Date, the last business day preceding the date of the announcement of the Company dated 22 November 2021, being 21 November 2021 and at the end of each of the calendar months during the Relevant Period, is not available. The last closing price on the Last Trading Day before suspension of trading was HK\$0.365 per Share.

#### 5. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors (including the proposed Directors) was given or would be given any benefits as compensation for loss of office or otherwise in connection with the proposed Restructuring;
- (b) none of the Directors (including the proposed Directors) has entered into any agreement, arrangement or understanding with any other person which is conditional on or dependent upon the outcome of the proposed Restructuring or otherwise connected with the proposed Restructuring;
- (c) no member of the Concert Party Group has entered into any agreement, arrangement or understanding (including any compensation arrangement) with any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the proposed Restructuring;
- (d) no material contract was entered into by any member of the Concert Party Group in which any Director has a material personal interest;
- (e) no agreement, arrangement or understanding has been entered into by any member of the Concert Party Group for the transfer, charge or pledge by any of them to any other person of any New Shares to be subscribed under the Subscription and the Restructuring Agreement;
- (f) none of the Directors (including the proposed Directors) had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (g) none of the Directors (including the proposed Directors) was materially interested in any contract or arrangement subsisting at the date of the circular which was significant to the business of the Group.

**6. SHAREHOLDINGS AND DEALINGS**

As at the Latest Practicable Date:

- (a) none of the Directors was interested in and had dealt for value in any Shares, convertible securities, warrants, options or derivatives or similar rights which were convertible or exchangeable into Shares during the Relevant Period;
- (b) none of the Company or any Directors was interested in and had dealt for value in any shares, convertible securities, warrants, options or derivatives or similar rights which were convertible or exchangeable in to shares of the Investor during the Relevant Period;
- (c) none of the Company or any Directors had borrowed or lent any Shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into Shares during the Relevant Period;
- (d) save for entering into the Restructuring Agreement, no member of the Concert Party Group had dealt in the Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company during the Relevant Period;
- (e) no member of the Concert Party Group held, controlled or had direction over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (f) none of the directors of the Investor held, controlled or had direction over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (g) no member of the Concert Party Group had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (h) none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, (iii) the financial adviser, Deloitte & Touche Corporate Finance Limited, (iv) the Independent Financial Advisor, nor (v) any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company by virtue of class (2) of the definition of associate under the Takeovers Code, had any interest or dealt for value in Shares, convertible securities, warrants, options, or derivatives or similar rights which are convertible or exchangeable into Shares during the Relevant Period; and

- (i) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, any member of the Concert Party Group, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code.

## **7. DIRECTORS' INTERESTS, CONTRACTS OF SIGNIFICANCE AND ASSETS**

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since 31 March 2021 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, the Directors were not materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

## **8. MATERIAL CHANGES**

As at the Latest Practicable Date, save for the Entrusted Operation and the UPPSD Bankruptcy Reorganisation, the Directors were not aware of any material change in the financial or trading position or outlook of the Group since 31 March 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to and including the Latest Practicable Date.

## **9. MATERIAL CONTRACTS**

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business carried out or intended to be carried out by the Company or any of its subsidiaries) within the two years immediately preceding the date of the Rule 3.5 Announcement and up to the Latest Practicable Date, which are or may be material:

- (a) the Restructuring Agreement and the Supplemental Agreement;
- (b) the Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement;
- (c) the Placing Agreement for Placement;
- (d) the Subscription Agreement;
- (e) the Facility Agreement;

- (f) the deed of share charge entered into by the Company in favour of NCD Investment Holding Limited in respect of the 100% shareholding in SPV1 dated 1 September 2021, under which the Company charges to NCD its 100% shareholding in SPV1 as security for the loan provided under the Facility Agreement. No consideration passes to or from the Group pursuant to this deed of share charge;
- (g) the share pledge agreement entered into by and between SPV1, SPV2 and Shandong Bairun dated 1 September 2021, under which SPV1 agrees to pledge its 100% shareholding in SPV2 to Shandong Bairun and as security for the carrying out of its obligations and as the guarantee for the pay off of the loan provided under the Facility Agreement. No consideration passes to or from the group pursuant to this share pledge agreement;
- (h) the share pledge agreement entered into by and between SPV2, UPPSD and Shandong Bairun dated 1 September 2021, under which SPV2 agrees to pledge its 100% shareholding in UPPSD to Shandong Bairun as security for the carrying out of its obligations and as the guarantee for the pay off of loan provided under the Facility Agreement. No consideration passes to or from the group pursuant to this share pledge agreement;
- (i) the mortgage agreement entered into by and between UPPSD and Shandong Bairun dated 1 September 2021, pursuant to which UPPSD agrees to grant a first priority mortgage over its assets (including 12 land and 65 buildings) as security for the loan provided under the Facility Agreement. No consideration passes to or from the group pursuant to this mortgage agreement; and
- (j) the Paperboard Sales Framework Agreement.

## 10. SERVICE CONTRACTS

Mr. Shi Yaofeng has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Shi will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Shi is determined by the remuneration committee of the Company and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions. Mr. Shi will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

Mr. Huang Tiansheng has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Huang will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Huang will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

Ms. Shi Chenye has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Ms. Shi will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Ms. Shi will continue to work at Zhejiang Xinshengda and/or its associates after her appointment becomes effective.

Mr. Cheng Dongfang has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Cheng will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Cheng will continue to work at Xiamen C&D Paper and/or its associates after his appointment becomes effective.

Mr. Li Shengfeng has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Li will not receive any emolument but will be entitled to discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. Mr. Li will continue to work at Zhejiang Xinshengda and/or its associates after his appointment becomes effective.

Mr. Choi Wai Hong, Clifford has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption, in substitution of his existing director's service contract, subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Choi will be entitled to an annual director's service fee of RMB360,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Choi is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Mr. Zhao Lin has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Zhao will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Zhao is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Mr. Wong Yiu Kit Ernest has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Mr. Wong will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Mr. Wong is determined by the remuneration committee of the Board and approved by the Board with reference to his position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

Ms. Cho Mei Ting has entered into a director's service contract with the Company dated 28 December 2021 for an initial term of three years commencing on the date of Resumption subject to termination by either party giving three months' written notice and retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws of the Company. Ms. Cho will be entitled to an annual director's service fee of RMB240,000, discretionary bonus and/or other benefits, *inter alia*, director's insurance, business travel insurance, as may be decided by the Board (upon the

recommendation of the remuneration committee of the Board) from time to time, payable by the Company or its subsidiary pursuant to the director's service contract. The remuneration of Ms. Cho is determined by the remuneration committee of the Board and approved by the Board with reference to her position, level of responsibilities, the remuneration policy of the Company as well as prevailing market conditions.

The appointment of the abovementioned proposed Directors shall require the approval of more than 50% of the votes cast by the Independent Shareholders at the SGM by poll; and if so approved, the appointment of the proposed Directors will be effective on the date of Resumption and they will remain with the Board after Resumption.

None of the proposed Directors is a Shareholder.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies, which:

- (a) are continuous contracts with a notice period of 12 months or more;
- (b) (including both continuous and fixed term contracts) have been entered into or amended within the Relevant Period;
- (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; and
- (d) are not determinable within one year without payment of compensation (other than statutory compensation).

## 11. LITIGATION

To facilitate a restructuring of the Company's indebtedness, the Company filed with the Bermuda Court the Petition, together with an application for the appointment of joint and several provisional liquidators to the Company on a "light touch" basis for restructuring purposes. On 24 July 2020, Bermuda Court ordered that the JPLs to be appointed to the Company, for the purpose of, *inter alia*, formulating, proposing and implementing a restructuring plan of the indebtedness of the Company. Upon presentation of the Petition, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the Hong Kong Court, and subject to such terms as the Hong Kong Court may impose. On 10 December 2021, the Bermuda Court ordered the withdrawal of the petition for the winding up of the Company and the discharge of the JPLs conditional upon the Listco Scheme becoming effective.

On 13 April 2021, UPPSD made an application to the PRC Court to convert the bankruptcy proceedings into a bankruptcy reorganisation with a view to facilitating a holistic restructuring of the Group involving the Company and UPPSD. On 20 April 2021, the PRC Court approved the conversion of the bankruptcy proceedings of UPPSD into a bankruptcy reorganisation.

For more information about the bankruptcy proceedings of UPPSD, please see the section headed “UPPSD Bankruptcy Reorganisation” in the “Letter From the Board” of this circular.

As disclosed in the section headed “Current Operational Positions of the Company and the Group — (ii) Paper Trading” in the “Letter From the Board” of this circular, there are voluntary liquidation of certain subsidiaries under the paper trading segment. As of the date of this circular, such voluntary liquidation proceeding are still on-going.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## **12. MAJOR CUSTOMERS AND SUPPLIERS**

### **(a) Financial year ended 31 March 2020**

During the year ended 31 March 2020, the aggregate turnover attributable to the Group’s five largest customers represented approximately 9% of the Group’s total revenue and the revenue attributable to the Group’s largest customer was approximately 4%.

The aggregate purchases attributable to the Group’s five largest suppliers represented approximately 30% of the Group’s total purchases and the purchases attributable to the Group’s largest supplier were approximately 10% of the Group’s total purchases.

No Directors, their close associates or any shareholder of the Company (which to the Directors’ knowledge own more than 5% of the Company’s share capital) had any shareholding in the suppliers or the customers referred to above as at 31 March 2020.

### **(b) Financial year ended 31 March 2021**

During the year ended 31 March 2021, the aggregate turnover from continuing operations attributable to the Group’s five largest customers represented approximately 7% of the Group’s total revenue from continuing operations and the revenue from continuing operations attributable to the Group’s largest customer was approximately 2%.

The aggregate purchases from continuing operations to the Group’s five largest suppliers represented approximately 21% of the Group’s total purchases from continuing operations and the purchases from continuing operations attributable to the Group’s largest supplier were approximately 13% of the Group’s total purchases.

No Directors, their close associates or any shareholder of the Company (which to the Directors’ knowledge own more than 5% of the Company’s share capital) had any shareholding in the suppliers or the customers referred to above as at 31 March 2021.

### 13. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
RSM Hong Kong	Certified Public Accountants
Dakin Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of RSM Hong Kong and Dakin Capital Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report or letter, as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of RSM Hong Kong and Dakin Capital Limited was not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group nor did they have any interest, either direct or indirect, in any assets which had been since 31 March 2021 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

### 14. CORPORATE INFORMATION

#### **The Company**

<b>Registered office</b>	5th Floor, Victoria Place, 31 Victoria Street, Hamilton HM10, Bermuda
<b>Principal office</b>	Unit D, 13/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong
<b>Existing authorised representatives</b>	Mr. Yu Ngai
<b>Proposed authorised representatives</b>	Mr. Cheng Dongfang Dr. Wong Chi Ho, Raymond

**The Investor**

<b>Registered office</b>	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
<b>Principal correspondence address</b>	24F, C&D International Tower, No. 1699 Huandao East Road, Siming District, Xiamen City, Fujian Province, the PRC
<b>Other principal members of the Concert Party Group</b>	
<b>Xiamen C&amp;D Paper</b>	24F, C&D International Tower, No. 1699 Huandao East Road, Siming District, Xiamen City, Fujian Province, the PRC
<b>Zhejiang Xinshengda</b>	5F, Tianfeng Building No. 5, Daoshanjian Village, Chunjiang Street, Fuyang District, Hangzhou City, Zhejiang Province, the PRC
<b>Shandong Bairun</b>	Rooms 101–105, Office Building, No. 3388 Zaocao Road, Xuecheng District, Zaozhuang City, Shandong Province, the PRC
<b>Mr. Li Shengfeng</b>	163-B-39-C e Gurney Paragon Residence, Persiaran Gurney, 10250 Georgetown, Pulau Pinang, Malaysia
<b>Ms. Lu Chengying</b>	Building No. 7, Shuiyin Linyu, Lushan Street, Fuyang District, Hangzhou City, Zhejiang Province, the PRC
<b>Other parties</b>	
<b>Financial Adviser to the Company</b>	<b>Deloitte &amp; Touche Corporate Finance Limited</b> 39/F, One Pacific Place, 88 Queensway, Hong Kong

<b>Financial Adviser to the Investor</b>	<b>Octal Capital Limited</b> Unit 801–805, Nan Fung Tower, 88 Connaught Road Central, Hong Kong
<b>Independent Financial Adviser</b>	<b>Dakin Capital Limited</b> Suite 3509, 35/F, Tower 2, Lippo Centre, 89 Queensway, Hong Kong
<b>Principal share registrar and transfer office</b>	<b>Butterfield Corporate Services Limited</b> 6 Front Street, Hamilton, Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	<b>Boardroom Share Registrars (HK) Limited</b> Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong
<b>Auditor</b>	<b>RSM Hong Kong</b> 29th Floor, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Hong Kong Law</i> <b>Jones Day</b> 31st Floor, Edinburgh Tower, The Landmark 15 Queen’s Road Central, Hong Kong  <i>As to Bermuda Law</i> <b>Harney Westwood &amp; Riegels</b> 3501 The Center, 99 Queen’s Road Central, Hong Kong
<b>Legal advisor to the Investor</b>	<i>As to Hong Kong law</i> <b>Seyfarth Shaw</b> Suites 3701, 3708–3710, 37/F, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong
<b>Principal bankers</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b>
<b>Existing company secretary</b>	Mr. Yu Ngai (Certified Public Accountant of Hong Kong)
<b>Proposed joint company secretaries</b>	Dr. Wong Chi Ho, Raymond (Solicitor of Hong Kong) Ms. Li Jing

**15. PARTICULARS OF DIRECTORS**

<b>Name</b>	<b>Address</b>
<b>Existing executive Directors:</b>	
Mr. Choi Wai Hong, Clifford	G/F-2/F, No. 9, Ko Tong Village, Sai Kung, New Territories, Hong Kong
Mr. Lau Wai Leung, Alfred	Flat A, 10/F, Block 1, Scenecliff, 33 Conduit Road, Mid-levels, Hong Kong
<b>Existing independent non-executive Director:</b>	
Mr. Leung Vincent Gar-gene	Unit 5A, Vista Mount Davis, 52-54 Mount Davis Road, Pokfulam, Hong Kong
<b>Proposed executive Directors:</b>	
Mr. Shi Yaofeng	Flat 304, Block 2, Lane 121 Jiefang South Road, Xianxue Community, Yuehu Neighbourhood, Haishu District, Ningbo City, Zhejiang Province, PRC
Mr. Huang Tiansheng	Flat 1002, Central Bay Area, No. 8 Riyuan Fourth Lane, Huli District, Xiamen City Fujian Province, PRC
Ms. Shi Chenye	Level 16B, Unit 39C, Gurney Paragon Condominium (West), Persiaran Gurney, Pulau Tikus, Georgetown, 10050 Pulau Pinang, Malaysia
<b>Proposed non-executive Directors:</b>	
Mr. Cheng Dongfang	Flat 1501, No. 83 Hubin West Road, Siming District, Xiamen City, Fujian Province, PRC
Mr. Li Shengfeng	163-B-39-C e Gurney Paragon Residence, Persiaran Gurney, 10250 Georgetown, Pulau Pinang, Malaysia

<b>Name</b>	<b>Address</b>
Mr. Choi Wai Hong, Clifford	G/F-2/F, No. 9, Ko Tong Village, Sai Kung, New Territories, Hong Kong
<b>Proposed independent non-executive Directors:</b>	
Mr. Zhao Lin	Flat 3, Unit 1, Block 8, Minzhu Village, No. 54 Minjiang West Road, Cuiping District, Yibin City Sichuan Province, PRC
Mr. Wong Yiu Kit, Ernest	Flat E, 28/F, Tower 15, Yee Wan Court, 15 South Horizon Drive, Ap Lei Chau, Hong Kong
Ms. Cho Mei Ting	Flat C, 12/F, Tower 17, Phase 2 The Cairnhill, 108 Route Twisk, Tsuen Wan, New Territories, Hong Kong

## **16. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors (including the proposed Directors and/or their respective associates) was considered to have an interest in a business which competes or is likely to complete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and their respective associates were appointed to represent the interests of the Company and/or the Group.

## **17. GENERAL**

If there is any inconsistency between the Chinese names of PRC entities, government authorities, institutions, departments, facilities or titles mentioned in this circular and their English translation, the Chinese version shall prevail. Other than that, the English text of this circular shall prevail over the Chinese text in the case of inconsistency.

## **18. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any business day (except public holiday and with prior notice) at the principal office of business of the Company in Hong Kong at Unit D, 13/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM in accordance with Note 1 to Note 8 of the Takeovers Code and will be displayed on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) and on the Company's website (<http://www.samsonpaper.com>).

- (i) Bye-Laws of the Company;

- (ii) the annual reports of the Company for the years ended 31 March 2020 and ended 31 March 2021 and the interim reports of the Company for the six-months ended 30 September 2021;
- (iii) the letter from the Board as set out in this circular;
- (iv) the letter from the Independent Board Committee as set out in this circular;
- (v) the letter from the Independent Financial Adviser as set out in this circular;
- (vi) the unaudited pro forma consolidated statement of financial position and consolidated statement of profit and loss of the Group as set out in Appendix II to this circular;
- (vii) the report from the Auditors on unaudited pro forma consolidated statement of financial position and consolidated statement of profit or loss of the Group, the text of which is set out in Appendix II to this circular;
- (viii) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix;
- (ix) memorandum and articles of association of the Investor;
- (x) a copy of each of the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (xi) the services contracts referred to in the paragraph headed “Service Contracts” in this appendix.



## SAMSON PAPER HOLDINGS LIMITED

### 森信紙業集團有限公司\*

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 731)**

## NOTICE OF SPECIAL GENERAL MEETING

Notice is hereby given that a special general meeting (the “SGM”) of Samson Paper Holdings Limited (Joint Provisional Liquidators Appointed) (For Restructuring Purposes Only) (the “Company”) will be held at Unit D, 13/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong, at 2:00 p.m. on Monday, 24 January 2022 to consider and, if thought fit, approve, with or without modification, the following resolutions:

### AS A SPECIAL RESOLUTION

#### The Capital Reduction

1. “**THAT** conditional upon: compliance with the relevant procedures and requirements under sections 45 and 46 of the Bermuda Companies Act to effect the Capital Reorganisation, including (i) publication of notice of the Capital Reorganisation in Bermuda in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the date on which the Capital Reorganisation is to take effect; and (ii) obtaining of the Directors’ confirmation confirming that on the date on which the Capital Reduction is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they fall due; (iii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares allotted and issued following the Capital Reorganisation, the issued ordinary share capital of the Company shall be reduced by cancelling the paid up capital of the Company to the extent of HK\$0.095 on each of the issued Existing Shares such that the par value of each issued existing Share shall be reduced from HK\$0.10 to HK\$0.005 (the “Capital Reduction”).”

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## NOTICE OF SGM

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### AS ORDINARY RESOLUTIONS

#### **The Authorised Share Capital Diminution, the Share Premium Cancellation, the Share Consolidation and the Increase in the Authorised Capital**

2. “**THAT** conditional upon: the Capital Reduction becoming effective, all the authorised but unissued ordinary share capital be cancelled in its entirety (the “Authorised Share Capital Diminution”).”
3. “**THAT** conditional upon: the Capital Reduction becoming effective, the entire amount of approximately HK\$161,000,000 standing to the credit of the share premium account of the Company, being the aggregate amount subscribed for the existing Shares in excess of such existing Shares’ par value at that time, be cancelled from the share premium account and credited to the contributed surplus reserve account of the Company (the “Share Premium Cancellation”).”
4. “**THAT** conditional upon: the Capital Reduction, the Authorised Share Capital Diminution and the Share Premium Cancellation becoming effective, every ten (10) existing issued and unissued Shares of HK\$0.005 each be consolidated into one (1) new Share of the Company of HK\$0.05 (the “New Share(s)”) each (the “Share Consolidation”).”
5. “**THAT** conditional upon: the Capital Reduction, the Authorised Share Capital Diminution, the Share Premium Cancellation and the Share Consolidation becoming effective, the Company’s authorised ordinary share capital be increased from approximately HK\$5,710,000 divided into 114,107,582 New Shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 New Shares of HK\$0.05 each (the “Increase in the Authorised Capital”).”
6. “**THAT** any one provisional liquidator of the Company (a “Joint Provisional Liquidator” and collectively, “Joint Provisional Liquidators”) or any one director of the Company (a “Director” and collectively, “Directors”) be and is hereby authorised generally to do all acts, deeds and things, to take all necessary steps, and to approve, sign and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary, desirable or expedient for the purpose of carrying into effect, giving effect to or implementing any of the foregoing Resolutions numbered 1 to 5.”

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## NOTICE OF SGM

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### AS A FURTHER SPECIAL RESOLUTION

#### The Amendments to the Bye-Laws of the Company

7. **THAT** subject to and conditional upon the implementation of the Capital Reorganisation, and concurrently with the Increase in the Authorised Capital, the Bye-Laws of the Company be amended as follows (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for identification purposes):

Existing Bye-Law 4 (A) be deleted in its entirety and the following new Bye-Law 4 (A) be substituted therefor:

“4. (A) The authorised share capital of the Company at the date this Bye-Law becomes effective is HK\$114,308,601.30 divided into 2,000,000,000 shares of HK\$0.05 each (the “Ordinary Shares”) and 143,086,013 convertible non-voting preference shares of HK\$0.10 each in the capital of the Company (the “CP Shares”)”

### AS ORDINARY RESOLUTIONS

#### The Restructuring Agreement, the Subscription and the allotment of the Subscription Shares and Creditors’ Shares

8. **“THAT:**
- a. the terms of the restructuring agreement dated 30 July 2021 as supplemented by the supplemental agreement to the Restructuring Agreement dated 22 November 2021 (the “Restructuring Agreement”) entered into by and among the Company, the Joint Provisional Liquidators, NCD Investment Holding Limited (the “Investor”), 廈門建發紙業有限公司 (Xiamen C&D Paper & Pulp Co., Ltd.), 浙江新勝大控股集團有限公司 (Zhejiang Xinshengda Holding Group Co., Ltd.), and 山東佰潤紙業有限公司 (Shandong Bairun Paper Co. Ltd.) in relation to the Restructuring, (a copy of which has been produced to the SGM marked “B” and signed by the chairman of the SGM for identification purposes), for the implementation of the restructuring of the Group comprising, among other things, the Capital Reorganisation, the Subscription, the Group Reorganisation, the Placement, the Listco Scheme, the UPPSD Bankruptcy Reorganisation, the Resumption, and other transactions contemplated thereunder and the execution and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;

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## NOTICE OF SGM

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- b. the terms of the subscription agreement dated 26 October 2021 (the “Subscription Agreement”) entered into by and among the Company as the issuer, the Investor as the subscriber and the Joint Provisional Liquidators (a copy of which has been produced to the SGM marked “C” and signed by the chairman of the SGM for identification purposes) for the subscription (the “Subscription”) of a total of 990,220,583 New Shares (the “Subscription Shares”) to be subscribed by the Investor, and the transactions contemplated thereunder and the execution and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
- c. the allotment and issue of the Subscription Shares pursuant to the terms of the Subscription Agreement be and are hereby confirmed, ratified and approved;
- d. the allotment and issue of 240,482,142 New Shares (the “Creditors’ Shares”) by the Company to the SchemeCo under the Listco Scheme, be and are hereby confirmed, ratified and approved; and
- e. any one Provisional Liquidator or any one Director be and is hereby authorised generally to do all acts, deeds and things, to take all steps, and to approve, sign and execute all documents (including the affixation of the common seal of the Company where execution under seal is required), as they may in their sole and absolute discretion consider necessary, desirable or expedient for the purpose of or in connection with carrying into effect, giving effect to, implementing or completing any of the foregoing, and any and all actions heretofore taken by any one Provisional Liquidator or any one Director that are consistent with the aforesaid be and are hereby confirmed, ratified and approved.”

### AS ORDINARY RESOLUTIONS

#### **The Placement, the Specific Mandates, the Special Deals, the Paperboard Sales Continuing Connected Transactions and the appointment of Directors**

##### **Placement**

- 9. “**THAT** conditional upon (i) the Stock Exchange granting the listing of, and permission to deal in the Subscription Shares, the Placement Shares and the Creditors’ Shares, and such listing and permission not being subsequently withdrawn or revoked; (ii) all requirements and conditions imposed by the Stock Exchange or the SFC or under the Listing Rules otherwise in connection with the Placement and the transactions contemplated thereunder having been fulfilled or complied with; (iii) the completion of the Capital Reorganisation, the Subscription and the Group Reorganisation, and the allotment and issue of the Subscription Shares, the Placement Shares and the Creditors’ Shares; and (iv) fulfillment or waiver of all the conditions precedents set out in the Placing

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## NOTICE OF SGM

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Agreement for Placement and the Placing Agreement for Placement not being terminated in accordance with its terms, be and are hereby confirmed, ratified and approved:

- a. the issue by way of placement of 114,107,582 New Shares (the “Placement Shares”) at the price of HK\$0.121506 per Placement Share to investors who are independent of and not connected persons of the Company (as defined in the Listing Rules) and independent of and not acting in concert with the Investor or its ultimate beneficial owners and to be public shareholders for the purposes of the public float (pursuant to the meaning ascribed to such term under Rule 8.08 of the Rules Governing the Listing of Securities on the Stock Exchange from time to time (“Listing Rules”));
- b. the terms of the Placing Agreement for Placement (a copy of which has been produced to the SGM marked “D” and signed by the chairman of the SGM for identification purposes), the transactions contemplated thereunder and the execution and performance thereof by the Company be and are hereby approved, confirmed and ratified; and
- c. any one Joint Provisional Liquidators and any one Director be and is hereby authorised generally to do all acts, deeds and things, to take all steps, and to approve, sign and execute all documents (including the affixation of the common seal of the Company where execution under seal is required), as they may in their sole and absolute discretion consider necessary, desirable or expedient for the purpose of or in connection with carrying into effect, giving effect to, implementing or completing any of the foregoing, and any and all actions heretofore taken by any one Provisional Liquidator or any one Director that are consistent with the aforesaid be and are hereby confirmed, ratified and approved.”

### Specific Mandates

10. “**THAT** the directors of the Company be and are hereby granted specific mandates to exercise the powers of the Company to issue and allot the Subscription Shares subject to and in accordance with the terms and conditions of the Subscription Agreement, to issue and allot the Placement Shares subject to and in accordance with the terms and conditions of the Placing Agreement for Placement, and to issue and allot the Creditors’ Shares.”

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## NOTICE OF SGM

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### Special Deals

11. **“THAT** conditional upon the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (the “Executive”) granting consent to (i) the proposed settlement of indebtedness due to DaiEi Papers (H.K.) Limited, a company incorporated in Hong Kong with limited liability (“DaiEi”) under the Listco Scheme under Note 5 to Rule 25 of the Takeovers Code (the “Special Deal I”), (ii) the proposed settlement of indebtedness due to DaiEi under the UPPSD Bankruptcy Reorganisation under Note 5 to Rule 25 of the Takeovers Code (the “Special Deal II”), and (iii) the guarantee granted to DaiEi via the SchemeCo to receive any shortfall of the Placing Price for Placing Out and the Issue Price of the Creditors’ Shares should the Placing Price for Placing Out be lower than the Issue Price of the Creditors’ Shares, such that DaiEi would still receive the Issue Price of the Creditors’ Shares per Creditors’ Share with regards to the Placing Out, if DaiEi is admitted as a Scheme Creditor of the Company by the Scheme Administrators through its participation in the Listco Scheme, upon taking effect of the Listco Scheme, pursuant to the Placing Agreement for Placing Out, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code (the “Special Deal III”, together with Special Deal I and Special Deal II, the “Special Deals”) be and are hereby confirmed, ratified and approved.”

### Paperboard Sales Continuing Connected Transactions

12. **“THAT**
- a. the framework agreement entered among UPPSD and Xiamen C&D Paper on 28 December 2021 in respect of the sales of paperboard products produced by UPPSD to Xiamen C&D Paper Group (the “Paperboard Sales Framework Agreement”) (a copy of which has been produced to the SGM marked “E” and signed by the chairman of the SGM for identification), be and is hereby approved, ratified and confirmed;
  - b. the proposed annual caps of the Paperboard Sales Framework Agreement be and are hereby approved; and
  - c. any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Paperboard Sales Framework Agreement.”

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## NOTICE OF SGM

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### Appointment of Directors

13. “**THAT** conditional upon the resumption of trading of the New Shares (the “Resumption”), each of the following persons (having consented to act as such) be elected as Directors of the Company effective from the date of Resumption:
- a. Mr. Shi Yaofeng be appointed as an executive Director;
  - b. Mr. Huang Tiansheng be appointed as an executive Director;
  - c. Ms. Shi Chenye be appointed as an executive Director;
  - d. Mr. Cheng Dongfang be appointed as a non-executive Director;
  - e. Mr. Li Shengfeng be appointed as a non-executive Director;
  - f. Mr. Choi Wai Hong, Clifford be re-designated as a non-executive Director;
  - g. Mr. Zhao Lin be appointed as an independent non-executive Director;
  - h. Mr. Wong Yiu Kit, Ernest be appointed as an independent non-executive Director;
  - i. Ms. Cho Mei Ting be appointed as an independent non-executive Director; and
  - j. the remuneration of each of Mr. Shi Yaofeng, Mr. Huang Tiansheng, Ms. Shi Chenye, Mr. Cheng Dongfang, Mr. Li Shengfeng, Mr. Choi Wai Hong, Clifford, Mr. Zhao Lin, Mr. Wong Yiu Kit, Ernest and Ms. Cho Mei Ting be and is hereby confirmed, ratified and approved.”

### AS A FURTHER SPECIAL RESOLUTION

#### Whitewash Waiver

14. “**THAT** subject to the passing of Resolutions numbered 8 to 11 set out in this Notice:
- a. the whitewash waiver (the “Whitewash Waiver”) granted or to be granted by the Executive Director (including his delegates) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (the “SFC”) pursuant to Note 1 on dispensations from Rule 26 of The Hong Kong Codes on Takeovers and Mergers (the “Takeovers Code”) waiving any obligation (either unconditionally or subject to such conditions as may be required by the SFC) on the part of the Investor and parties acting in concert with it (which has the meaning as that ascribed in the Takeovers Code, including those presumed to be acting in concert thereunder) to make a mandatory general offer for all the New Shares not already owned or agreed to be acquired upon completion of the Subscription, be and is hereby approved; and

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## NOTICE OF SGM

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- b. any one of the Joint Provisional Liquidators and any one Director be and is hereby authorised generally to do all acts, deeds and things, to take all steps, and to approve, sign and execute all documents (including the affixation of the common seal of the Company where execution under seal is required), as they may in their sole and absolute discretion consider necessary, desirable or expedient for the purpose of or in connection with carrying into effect, giving effect to, implementing or completing any of the foregoing, and any and all actions heretofore taken by any one of the Joint Provisional Liquidators or any one Director that are consistent with the aforesaid be and are hereby confirmed, ratified and approved.”

By order of the Board  
**Samson Paper Holdings Limited**  
(Provisional Liquidators Appointed)  
(For Restructuring Purposes Only)  
**Choi Wai Hong, Clifford**  
*Executive Director*  
**Lau Wai Leung, Alfred**  
*Executive Director*

For and on behalf of  
**Samson Paper Holdings Limited**  
(Provisional Liquidators Appointed)  
(For Restructuring Purposes Only)  
**Lai Kar Yan (Derek)**  
**Ho Kwok Leung (Glen)**  
**Rachelle Ann Frisby**  
*Joint and Several Provisional Liquidators*  
*Acting as agents for and on behalf*  
*of the Company without personal liability*

Hong Kong, 31 December 2021

*Registered Office:*  
5th Floor, Victoria Place,  
31 Victoria Street, Hamilton HM10,  
Bermuda

*Principal Office:*  
Unit D, 13/F, World Tech Centre,  
95 How Ming Street,  
Kwun Tong,  
Kowloon, Hong Kong

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## NOTICE OF SGM

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*Notes:*

1. A proxy form to be used for the SGM is enclosed with this circular.
2. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a shareholder of the Company.
3. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148, Electric Road, North Point, Hong Kong, not less than 48 hours before the time fixed for the holding of the SGM or any adjournment thereof.
4. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the SGM personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. The above resolutions will be put to vote at the SGM by way of poll. Resolutions numbered 1 and 14 will be voted by the Independent Shareholders (as defined in this circular).
6. The register of members of the Company will be closed from Tuesday, 18 January 2022 to Monday, 24 January 2022 both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not later than 4:30 p.m. on Monday, 17 January 2022.

*As at the Latest Practicable Date, the Board comprises of Mr. Choi Wai Hong, Clifford and Mr. Lau Wai Leung, Alfred as executive directors and Mr. Leung Vincent Gar-gene as independent non-executive Director.*

\* *For identification purpose only*