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

If you have sold or transferred all your shares in the Company, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

MAJOR TRANSACTION

ACQUISITION OF ASSETS

* For identification purposes only

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DEFINITIONS

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

“Acquisition”	acquisition of the Assets under the Auction
“Arjowiggins Chenming”	Arjowiggins Chenming Specialty Paper Co., Ltd.* (阿爾諾維根斯晨鳴特種紙有限公司), a sino-foreign Equity Joint Venture in the PRC
“Articles”	the articles of association of the Company
“Assets”	the Properties, Production Facilities and Other Assets
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Auction”	an open auction held on 8 December 2011 under an order of the Shandong Province Linyi City Intermediate People’s Court* (山東省臨沂市中級人民法院) for the auction of the Assets
“Auction Agreement”	an auction agreement entered into between Shandong Sunshine as the bidder and Linyi Zhengda as the auctioneer dated 7 December 2011 in relation to Shandong Sunshine’s participation in the Auction, and such agreement has been incorporated as part of the Auction Confirmation
“Auction Confirmation”	a auction confirmation dated 8 December 2011 entered into between Shandong Sunshine and Linyi Zhengda confirming the successful bid by Shandong Sunshine for the Assets
“Board”	the board of Directors
“China Sunrise”	China Sunrise Paper Holdings Limited (formerly known as China Sunshine Paper Holdings Limited), a company established under the laws of the Cayman Islands with limited liability on 3 April 2006, which is a wholly owned subsidiary of China Sunshine and a controlling shareholder of the Company
“China Sunshine”	China Sunshine Paper Investments Limited (中國陽光紙業投資有限公司), a company established under the laws of the British Virgin Islands with limited liability on 14 March 2006 and which is wholly-owned by the Controlling Shareholders Group that includes certain Directors, namely, 王東興 (Mr. Wang Dongxing), 施衛新 (Mr. Shi Weixin), 王益瓏 (Mr. Wang Yilong) and 張增國 (Mr. Zhang Zengguo), and certain members of the senior management of the Group, namely, 桑自謙 (Mr. Sang Ziqian), 胡剛 (Mr. Hu Gang) and 王長海 (Mr. Wang Changhai)

DEFINITIONS

“Company”	China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司*), an exempted company incorporated in the Cayman Islands with limited liability on 22 August 2007, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders Group”	a group of 20 individuals comprising 王東興 (Mr. Wang Dongxing), 施衛新 (Mr. Shi Weixin), 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng), 桑自謙 (Mr. Sang Ziqian), 桑永華 (Mr. Sang Yonghua), 王永慶 (Mr. Wang Yongqing), 陳效雋 (Mr. Chen Xiaojun), 鄭法聖 (Mr. Zheng Fasheng), 左希偉 (Mr. Zuo Xiwei), 馬愛平 (Mr. Ma Aiping), 李仲翥 (Mr. Li Zhongzhu), 李華 (Ms. Li Hua), 郭建林 (Mr. Guo Jianlin), 孫清濤 (Mr. Sun Qingtao), 陸雨杰 (Mr. Lu Yujie), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai)
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group upon completion of the Acquisition
“Good Rise”	Good Rise Holdings Limited (好晉控股有限公司), a company incorporated in the British Virgin Islands on 16 July 2007, which is wholly owned by LC Fund III, L.P.
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	30 March 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Linyi Zhengda”	Linyi Zhengda Auction Co., Ltd.* (臨沂正大拍賣有限公司), the auctioneer appointed by the Shandong Province Linyi City Intermediate People’s Court* (山東省臨沂市中級人民法院) for the Auction
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules

DEFINITIONS

“Other Assets”	certain motor vehicles and electronic equipment, mainly comprising office equipment, administration and management equipment
“PRC”	the People’s Republic of China and for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Production Facilities”	production facilities of Arjowiggins Chenming under the Auction, namely, a production line situated in the Properties with an annual designed production capacity of approximately 35,000 tons for decorative paper and other auxiliary equipment
“Properties”	land use rights and buildings of Arjowiggins Chenming under the Auction, comprising: <ul style="list-style-type: none">(i) land use rights — a parcel of land located at No. 69 Wen Chang Road, Shouguang City, Shandong Province, PRC with a total area of approximately 171,480 sq.m; and(ii) buildings — certain buildings situated on the land referred to in (i) above with a total gross floor area of approximately 32,965.10 sq.m.
“RMB”	Renminbi, the lawful currency of the PRC
“Seabright”	Seabright SOF (I) Paper Limited, a company incorporated under the laws of the British Virgin Islands on 30 May 2006 and a wholly-owned subsidiary of Seabright China Special Opportunities (I) Limited
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Sunshine”	Shandong Century Sunshine Paper Group Co., Ltd* (山東世紀陽光紙業集團有限公司), a company established in the PRC with limited liability and a subsidiary of the Company
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme adopted by the Company on 19 November 2007
“sq.m”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended and supplemented from time to time
“%”	per cent

* *for identification purposes only*

LETTER FROM THE BOARD



CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

Executive Directors:

Mr. Wang Dongxing (*Chairman and General Manager*)
Mr. Shi Weixin (*Vice Chairman*)
Mr. Zhang Zengguo (*Deputy General Manager*)
Mr. Wang Yilong

Non-executive Directors:

Mr. Xu Fang
Mr. Wang Junfeng

Independent non-executive Directors:

Mr. Leung Ping Shing
Mr. Wang Zefeng
Mr. Xu Ye

Registered office:

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

*Head office and principal place of business
in the PRC:*

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal place of business in Hong Kong:

Suite 1627, 16/F., Ocean Centre
Harbour City, 5 Canton Road
Kowloon
Hong Kong

3 April 2012

*To the Shareholders and, for information only,
the holders of share options of the Company,*

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF ASSETS

INTRODUCTION

References are made to the announcements of the Company dated 19 December 2011, 20 December 2011, 24 February 2012, 16 March 2012 and 30 March 2012.

As disclosed in the announcement dated 19 December 2011, Shandong Sunshine has successfully bid for the Assets in the Auction on 8 December 2011.

* For identification purposes only

LETTER FROM THE BOARD

As disclosed in the announcement dated 20 December 2011, as one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but all those applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

This circular provides you with, among other things, (i) further information regarding the Acquisition; (ii) a valuation report on the Properties; and (iii) a valuation report on the Production Facilities and the Other Assets.

The material terms of the Auction are set out below.

THE AUCTION

1. Date

In order to participate in the Auction, Shandong Sunshine signed the Auction Agreement as the bidder and Linyi Zhengda as the auctioneer on 7 December 2011. The Auction was held on 8 December 2011 under an order of the Shandong Province Linyi City Intermediate People's Court* (山東省臨沂市中級人民法院). After successfully winning the bid, Shandong Sunshine and Linyi Zhengda entered into the Auction Confirmation as the bidder and the auctioneer, respectively, on 8 December 2011.

2. Parties

- (i) Shandong Sunshine as the bidder
- (ii) Linyi Zhengda as the auctioneer

3. Target of the bid

The target of the bid was certain assets of Arjowiggins Chenming, comprising:

- (i) the Properties — a parcel of land located at No. 69 Wen Chang Road, Shouguang City, Shandong Province, PRC with a total area of approximately 171,480 sq.m and certain buildings situated on the land with a total gross floor area of approximately 32,965.10 sq.m.;
- (ii) the Production Facilities — a production line situated in the Properties with an annual designed production capacity of approximately 35,000 tons for decorative paper and other auxiliary equipment; and
- (iii) the Other Assets — motor vehicles and electronic equipment, mainly comprises office equipment, administration and management equipment.

4. Determination of the final bid price

The final bid price of RMB203 million was the successful bid submitted by Shandong Sunshine under the Auction.

The Directors, including the independent non-executive Directors, consider that the amount of the bid is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

5. Payment terms of the bid price

The final bid price shall be paid in the following manner:

- (i) RMB50 million to be paid within 7 days from the date of the Auction, which included participation guarantee fee and commission of the auctioneer of RMB980,000;
- (ii) RMB50 million to be paid within 20 days from the date of the Auction; and
- (iii) the balance to be paid within 120 days from the date of the Auction.

As at the Latest Practicable Date, Shandong Sunshine has paid a total of RMB100 million for the successful bid of the Assets.

6. Transfer of titles of the Assets

Upon full payment of the bid price by Shandong Sunshine, which shall be paid on or before 5 April 2012, Shandong Sunshine shall proceed to arrange for the transfer of titles of the Assets or other changes in licensing (if any). As advised by Commerce & Finance Law Offices, the legal advisers to the Company as to the laws of the PRC, subject to (i) the full payment of the bid price in accordance with the Auction Confirmation; (ii) Shandong Province Linyi City Intermediate People's Court* (山東省臨沂市中級人民法院) granting an order confirming completion of the Auction; and (iii) the transfer of the titles of the Properties complying with the ordinary conditions and procedural requirements of the relevant laws and regulations of the PRC, there is no material legal impediments as to the transfer of titles of the Properties from Arjowiggins Chenming to Shandong Sunshine. All costs associated with such changes of titles or licensing shall be borne by Shandong Sunshine.

INFORMATION ON THE ASSETS

The Properties

The Properties comprised of (i) a parcel of land located at No. 69 Wen Chang Road, Shouguang City, Shandong Province, PRC, with a total area of approximately 171,480 sq.m; and (ii) certain buildings situated on the land with a total gross floor area of approximately 32,965.10 sq.m, of which, a total of 32,731.20 sq.m are covered by six building ownership certificates and a total of 233.90 sq.m are not covered by any building ownership certificates. The 233.90 sq.m are temporary structures, comprising two guard kiosks and one water pump shed. The Directors believe that such temporary structures are temporary in nature, which could be easily demolished at minimal cost if requested by the relevant authorities in the PRC, and are not crucial to the business or operation of the Group. As such, upon completion of the transfer of title of the Properties, Shandong Sunshine will not apply for, or procure the application of, the building ownership certificates for these temporary structures.

As at the Latest Practicable Date, the Properties are occupied by Arjowiggins Chenming, the legal owner of the Assets, as the Acquisition has not been completed. Shandong Sunshine is expected to take possession of the Assets upon full payment of the bid price. In accordance with the terms and conditions of the Auction Confirmation, the last tranche of payment of the bid price is to be made by Shandong Sunshine on or before 5 April 2012.

The Production Facilities

To the best knowledge, information and belief of the Directors, the production activities of Arjowiggins Cheming have ceased or have been suspended since October 2008. Nevertheless, a team of personnel of Arjowiggins Chenming has been retained to maintain the Production Facilities. After

LETTER FROM THE BOARD

Shandong Sunshine has successfully bid for the Assets, and with a view to bring the Production Facilities back into operation as soon as possible upon transfer of titles of the Assets to Shandong Sunshine, Shandong Sunshine has acquired a new steam boiler and a waste water treatment system, and arranged electricity supply to be connected to the Assets from the electricity grid of Shouguang City, Shandong Province, PRC.

Further, the Directors currently expect that the Production Facilities may require pre-operational tune-ups and minor repairs, such as replacement of certain old mechanical parts, in order to bring the Production Facilities to fully operational conditions.

The Assets

As the Assets under the Acquisition were bid through an open auction arranged by Shandong Province Linyi City Intermediate People's Court* (山東省臨沂市中級人民法院), no financial information of the Assets was made available to Shandong Sunshine.

Based on the valuations performed by Castores Magi (Hong Kong) Limited, the professional valuer engaged for the purpose of providing independent valuations on the Assets, the capital value of the Properties as at 31 January 2012 amounted to RMB109,110,000 and the fair market value of the Production Facilities and the Other Assets as at 31 December 2011 amounted to RMB130,161,804. For the detailed valuations of the Properties as at 31 January 2012 and of the Production Facilities and Other Assets as at 31 December 2011, please refer to the valuation reports as set out in Appendix II to this circular.

REASON FOR THE AUCTION

To the best knowledge, information and belief of the Directors, the events leading to the Assets being put up in the Auction are as follows:

The Assets were owned by Arjowiggins Chenming, a sino-foreign equity joint venture in the PRC. Around October 2008, due to disagreements among the shareholders of Arjowiggins Chenming, the production activities of Arjowiggins Chenming have ceased or have been suspended. Subsequently, a shareholder of Arjowiggins Chenming applied to the Shandong Province Higher People's Court* (山東省高級人民法院) for a repayment of the debt owed by Arjowiggins Chenming. In June 2011, Shandong Province Higher People's Court* (山東省高級人民法院) handed down a judgment requiring Arjowiggins Chenming to repay the debt due to such shareholder with interest. As Arjowiggins Chenming was unable to satisfy the judgment, Shandong Province Linyi City Intermediate People's Court* (山東省臨沂市中級人民法院) ruled that the Assets shall be put up for sale in an open auction to repay the said outstanding debt.

An auction of the Assets was initially advertised in the Qilu Evening News* (齊魯晚報) on 29 October 2011, inviting the public to participate in the initial auction for the Assets on 14 November 2011. To the best knowledge, information and belief of the Directors, such auction scheduled to take place on 14 November 2011 was not completed due to a lack of interest from potential bidders. According to the relevant laws and regulations in the PRC related to judicial auctions, for the Auction held on 8 December 2011, it was a second attempt to sell the Assets via public auction, which was also open to the public. To the best knowledge, information and belief of the Directors, everyone has an equal position to bid for the Assets.

REASON FOR THE ACQUISITION

It is proposed that the Assets acquired under the Auction will be used in the ordinary course of business of the Group for the manufacturing of decorative paper products.

The Company is currently in preliminary discussions with several independent third parties on a possible establishment of a joint venture in the PRC to operate the Assets. The Company expects that establishing a joint venture would provide the Company with a competitive advantage as the parties to the

LETTER FROM THE BOARD

joint venture could contribute their respective strengths in the joint venture. The parties to the potential joint venture or details of such plan have not been finalised as at the Latest Practicable Date. As the discussions for the establishment of any potential joint venture are still at a preliminary stage and that there is no certainty that any joint venture will be established at all, there is currently no definite timetable for the signing of any joint venture agreement or establishment of any joint venture. Nevertheless, to the best knowledge, information and belief of the Directors, subject to conclusion of the commercial terms of the joint venture to the satisfaction of the Directors, they currently do not foresee any difficulties for the establishment of such joint venture. The Company will keep the market informed of future developments of such plan by way of announcement in compliance with the requirements of the Listing Rules as and when appropriate.

In the event that the Company could not conclude any binding agreements with any third party to establish a joint venture to operate the Assets, the Group plans to, and is capable to, operate the Assets as the Group is in the business of paper manufacturing and the Group, including its management team and staff, has the necessary experience, skills and know-how to operate the Assets.

The Directors, including independent non-executive Directors, consider that the participation by Shandong Sunshine in the Auction for the Assets and the terms of the Auction Confirmation are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

The total bid price of RMB203 million will be paid by Shandong Sunshine to the Auctioneer in full on or before 5 April 2012, which will be funded by internal resources of the Group. Following the Acquisition, the current assets of the Group are expected to decrease by approximately RMB203 million, representing the cash payment for the bid. The non-current assets of the Group are expected to increase by approximately RMB203 million. The total assets, net asset value and liabilities of the Group remains unchanged.

The Directors consider that the Acquisition will contribute to the revenue and profit of the Group but the quantification of such contribution will depend on the future performance of the Assets acquired.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but all those applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has received from each of China Sunrise, Good Rise and Seabright of their respective written approval of the Acquisition. Since China Sunrise, Good Rise and Seabright, which in aggregate held 470,275,970 Shares, representing approximately 58.59% of the issued share capital of the Company, and that no Shareholder is required to abstain from voting if an extraordinary general meeting would be convened for the approval of the Acquisition, no physical general meeting will be held to approve the Acquisition pursuant to Rule 14.44 of the Listing Rules.

Further, to the best knowledge, information and belief of the Directors, the Assets, in particular the Production Facilities, have not been operated for commercial production or generated any revenue for the three preceding financial years as production activities of Arjowiggins Chenming have ceased or have been suspended since October 2008. Based on the current assessment of the Assets, the Directors believe the Assets would require certain work in order to bring the Production Facilities back into operation

LETTER FROM THE BOARD

for commercial production, including pre-operational tune-ups and repairs, the installation of the new boiler and waste water treatment systems acquired by Shandong Sunshine separately, the arrangement of electricity supply to be connected to the Assets from the electricity grid of Shouguang City, Shandong Province, PRC. The Directors consider the current status of the Assets could not and would not be able to generate any revenue with identifiable income stream and to the best knowledge, information and belief of the Directors, the Assets have not generated any revenue with an identifiable stream for the three preceding financial years. As such, Rule 14.67(6)(b) of the Listing Rules would not be applicable and no profit and loss statement for the three preceding financial years of the Assets and no pro forma statement of the Assets and liabilities of the Enlarged Group would be included in this circular.

INFORMATION ON LINYI ZHENGDA

Linyi Zhengda is the auctioneer appointed by the Shandong Province Liuyi City Intermediate People's Court* (山東省臨沂市中級人民法院) for the Auction.

To the best knowledge, information and belief of the Directors, Linyi Zhengda, the auctioneer for the Auction, and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

INFORMATION ON ARJOWIGGINS CHENMING

Arjowiggins Chenming is a sino-foreign equity joint venture established in the PRC and is the legal owner of the Assets. To the best knowledge, information and belief of the Directors, Arjowiggins Chenming and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

INFORMATION ON SHANDONG SUNSHINE

Shandong Sunshine is a subsidiary of the Group established in the PRC with limited liability. It is principally engaged in the production and sale of white top linerboard, light-coated linerboard and core board.

INFORMATION ON THE GROUP

The Group is one of the largest white top linerboard and light-coated linerboard manufacturers in terms of production volume in the PRC. The products of the Group include white top linerboard, light-coated linerboard, specialised paper products and core board.

RECOMMENDATION

The Board is of the view that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

OTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
China Sunshine Paper Holdings Company Limited
Wang Dongxing
Chairman

1. THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group:

- (a) for the year ended 31 December 2008 is disclosed on pages 47 to 126 of the annual report of the Company for the year ended 31 December 2008 dated 7 April 2009;
- (b) for the year ended 31 December 2009 is disclosed on pages 49 to 122 of the annual report of the Company for the year ended 31 December 2009 dated 29 March 2010;
- (c) for the year ended 31 December 2010 is disclosed on pages 52 to 128 of the annual report of the Company for the year ended 31 December 2010 dated 28 March 2011; and
- (d) for the six months ended 30 June 2011 is disclosed on pages 22 to 40 of the interim report of the Company for the six months ended 30 June 2011 dated 30 August 2011.

All these reports have been published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.sunshinepaper.com.cn.

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 29 February 2012, being the most practicable date prior to the printing of this circular, the Enlarged Group had total debt of RMB4,954.85 million as set forth below:

	<i>RMB'000</i>
Bank and other borrowings	2,830,351
Bills payable	216,500
Obligations under finance leases	383,351
Discounted bill financing	1,524,650
	<u>4,954,852</u>

Save as aforesaid, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, as at the close of business on 29 February 2012, the Enlarged Group did not have any other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits (other than normal trade bills), guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account projected operating cash flow of the Enlarged Group, existing cash and bank balances as well as banking facilities available, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the production and sale of packaging papers in China. The Group operates five production lines with an aggregate annual designed production capacity of approximately 1,100,000 tons. The Group has fully integrated manufacturing facilities supported by its own power and steam plant, waste water treatment, recovered paper collection points, transportation vehicles and an extensive sales network in China.

The market trend in packaging paper is moving towards mid-to-high end paper which has lighter coating layer and that are more environmentally friendly with better printing quality. Compared to other packaging papers manufacturers in the PRC, we are able to develop products and be one of the first in the PRC to supply products with the required quality to meet the market trend.

According to the statistics collated by the China Paper Association, the Group was one of the top twenty largest paper manufacturers in China in 2010 by production output. As one of the leading packaging paper manufacturers in China, the Group has established a strong foundation to capture the vast business opportunities by taking advantage of the continuous increase of domestic consumption in China.

Urbanization has been accelerating in China and the PRC government gives strong backing for the construction of economically affordable housing, which in turn provides buoyant demand of the decorative papers in China. The Directors believe that the Asset will commence its pre-operational tune-ups in the second quarter of 2012 with its commercial production to commence thereafter, and it is currently anticipated that a separate dedicated senior management team will be assigned to manage its operation. The Group is also currently in discussion with several independent third parties, who possess extensive knowledge and know-how in manufacturing paper products, on the possible establishment of a joint venture in the PRC to operate the Assets, but details of such plan have not been finalized as at the date hereof. The Company will keep the market informed of future developments of such plan by way of announcement in compliance with the requirements of the Listing Rules as and when appropriate.

The current assets of the Enlarged Group are expected to decrease but its total assets are expected to remain unchanged. The Enlarged Group may record insignificant losses in relation to the Assets during the periods during its pre-operational tune-ups and the early stage of commercial production. However, upon putting the Assets, in particular the Production Facilities, to operate at its optimum conditions, the Directors believe it will further enhance the Enlarged Group's operating result.

The Directors believe that the Acquisition will bring another valuable source of revenue and profit to the Group.

(A) *The following is the text of a letter with the valuation certificate received from Castores Magi (Hong Kong) Limited prepared for the purpose of incorporation in this circular, in connection with their valuation as at 31 January 2012 of the Properties.*

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES

MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

3 April, 2012

The Directors
China Sunshine Paper Holdings Company Limited
Suite 1627, 16th Floor,
Ocean Centre, Harbour City,
No. 5 Canton Road,
Kowloon,
Hong Kong.

Dear Sirs,

In accordance with your instruction to value the property held by Arjowiggins Chenming Specialty Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司) (“Arjowiggins Chenming”) located in Shouguang City, Shandong Province, the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant property as at 31st January, 2012 (“date of valuation”).

Our valuation of the land use rights of the property is our opinion of the Market Value which we would define as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.” Market Value is understood as the value of an asset estimate without regard to costs of sale or purchase and without offset for any associated taxes.

Our valuation of the land use rights of the property has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property.

The land use rights of the property has been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In accordance with International Valuation Guidance Note No. 8 published by The International Valuation Standards Committee, the buildings and structures of the property belong to the category of specialized properties, which are rarely if ever sold on the open market, except by way of a sale of the business or entity of which they are a part, due to their uniqueness, which arises from the specialized nature and design of the buildings, their configuration, size, location or otherwise. Consequently, reliable sale comparables cannot generally be identified for specialized properties.

Our valuation of the buildings and structures of the property is on the basis of Depreciated Replacement Cost which is used for the valuation of specialized properties. It is an application of the cost approach that may be used in arriving at the value of specialized properties for financial reporting purposes. Depreciation Replacement Cost may be the more applicable approach when comparable sales data is insufficient but sufficient market data exists concerning costs and accrued depreciation. As an application of the cost approach, it is based on the principle of substitution. Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current costs of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the property interest, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In valuing the property interest, we have complied with all the requirements contained in the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the property interest regarding major approvals, consents and licences required in the PRC is set out as follows:

<i>Document/Approval</i>	<i>Status</i>
State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

We have relied to a considerable extent on the information provided by China Sunshine Paper Holdings Company Limited (the “Company”) and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and where possible, the interior of the property, in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey, investigation or examination have been made. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property was free from encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

We have been shown copies of various documents relating to the property. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property or any material encumbrances that might be attached to the property. However, we have made reference to the opinion given by the Company's legal advisers in the PRC, Commerce & Finance Law Offices (通商律師事務所) in respect of Arjowiggins Chenming's title to the property.

The scope of valuation has been determined with reference to the property list provided by the Company. The property on the list has been included in this valuation certificate.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Renminbi.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuations, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company, Arjowiggins Chenming or the value reported.

Our valuation certificate is attached herewith.

Yours faithfully,

For and on behalf of

Castores Magi (Hong Kong) Limited

Ernest Cheung Wah Fu

Member of China Institute of Real Estate Appraisers and Agents

B.Sc. MRICS MHKIS RPS MCI Arb

Director

Note: Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 19 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuer for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2012 (RMB)
Various buildings and structures erected on a parcel of land located at No. 69 Wen Chang Road, Shouguang City, Shandong Province, The PRC.	<p>The property comprises a parcel of land with 9 blocks of buildings and various ancillary structures erected thereon. The buildings are 1 to 3-storeys in height and were completed between 2006 and 2008.</p> <p>The land on which the buildings and structures situated has a site area of 171,480 sq. m.</p> <p>The property has a total gross floor area of about 32,965.1 sq. m. (the 6 Building Ownership Certificates mentioned in Note 2 below covered a total gross floor area of about 32,731.2 sq. m. and the remaining 233.9 sq. m. is not covered by any building ownership certificate).</p> <p>The property is held under a land use rights for a term up to 9th March, 2056 for industrial purpose.</p>	<p>The property is currently occupied by Arjowiggins Shenming. We have been advised by the Company that production activities of Arjowiggins Shenming had been ceased since October, 2008.</p>	109,110,000
1.	Pursuant to a State-Owned Land Use Rights Certificate — Shou Guo Yong (2006) No. 02003 (國有土地使用証 — 壽國用(2006)第02003號) dated 8th March, 2006 issued by the People's Government of Shouguang City (壽光市人民政府), Arjowiggins Chenming Specialty Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司) was granted the land use rights of a parcel of land having a site area of 171,480 sq. m. for a term up to 9th March, 2056 for industrial purpose.		
2.	The property is subject to 6 Building Ownership Certificates — Shou Fang Quan Zheng Shou Guang Zi Nos. 2009000129–2009000134 (房屋所有權證 — 壽房權証壽光字第2009000129–2009000134號) issued by Shouguang City Real Estate Administration Bureau (壽光市房地產管理局). According to these 6 certificates, the owner of 6 blocks of buildings is Arjowiggins Chenming Specialty Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司). These 6 blocks of buildings have a total gross floor area of about 32,731.2 sq. m.		
3.	The property (together with production facilities and other assets) was acquired by Shandong Century Sunshine Paper Group Co., Ltd. (山東世紀陽光紙業集團有限公司), a 99.9% owned subsidiary of the Company, through an auction held on 8 December 2011. The successful bid price was RMB203 million.		

4. For the land use rights mentioned in Note 1 above and the 6 building ownership rights mentioned in Note 2 above, it is stated in the legal opinion given by the Company's PRC legal advisers, Commerce & Finance Law Offices (通商律師事務所), inter alia, that:
- (a) Shandong Century Sunshine Paper Group Co., Ltd. (山東世紀陽光紙業集團有限公司) acquired the land use rights and the 6 building ownership rights through an auction;
 - (b) Prior to the auction, Arjowiggins Chenming had obtained the land use rights of the parcel of land having a site area of 171,480 sq. m. for a term expiring on 9th March, 2056 for industrial use;
 - (c) As at the date of the legal opinion, the land was not subject to any registered pledges;
 - (d) On the condition that the auction price and commission was paid according to the stipulated deadline, and all other legal requirements had been complied with, there is no material legal obstacles for Shandong Century Sunshine Paper Group Co., Ltd. (山東世紀陽光紙業集團有限公司) to obtain the aforesaid land use rights;
 - (e) Prior to the auction, Arjowiggins Chenming had obtained 6 Building Ownership Certificates (房屋所有權證) for 6 blocks of buildings and is the legal owner of these 6 blocks of buildings;
 - (f) As at the date of the legal opinion, the 6 buildings were not subject to any registered pledges;
 - (g) On the condition that the auction price and commission was paid according to the stipulated deadline, and all other legal requirements had been complied with, there is no material legal obstacles for Shandong Century Sunshine Paper Group Co., Ltd. (山東世紀陽光紙業集團有限公司) to obtain the aforesaid building ownership rights.

5. A breakdown of our opinion of value is set out as follows:

Land Use Rights	RMB50,710,000
Buildings and Structures	<u>RMB58,400,000</u>
Total:	<u><u>RMB109,110,000</u></u>

(B) *The following is the text of a letter with the summary of values received from Castores Magi (Hong Kong) Limited prepared for the purpose of incorporation in this circular, in connection with their valuation as at 31 December 2011 of the Production Facilities and Other Assets.*

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES

MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

3 April, 2012

The Directors
China Sunshine Paper Holdings Company Limited
Suite 1627, 16th Floor
Ocean Centre, Harbour City
5 Canton Road
Kowloon
Hong Kong

Dear Sirs,

In accordance with the instruction of China Sunshine Paper Holdings Company Limited (the “Company”) to value the machinery and equipment (機器設備), motor vehicles (車輛) and electronic equipment (電子設備) (the “Assets”) held and exhibited to us by Arjowiggins Chenming Specialty Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司) (“ACSP”), we confirm that we have conducted physical inspections, made relevant enquiries, research and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Assets as at 31st December, 2011 (“date of valuation”).

We understand that this valuation is prepared and required for public disclosure purpose.

BRIEF INTRODUCTION OF ACSP

ACSP is a sino-foreign equity joint venture between Arjowiggins HKK2 Limited (70% equity) and Shandong Chenming Paper Holdings Limited (30% equity). Arjowiggins HKK2 Limited is the wholly-owned subsidiary of Arjowiggins S A S.

ACSP was established in December, 2005 and commenced commercial operation in January, 2008. Due to struggling between the shareholders, commercial operation had been ceased since October, 2008.

BRIEF INTRODUCTION OF PRODUCTS

ACSP is mainly engaged in the manufacture of decorative base paper (裝飾原紙).

Decorative base paper is a kind of specialty paper (特種紙) being produced with the primary raw materials of wood pulp (木漿) and titanium dioxide powder (鈦白粉). It is an intermediate product and commonly further processed by printing and melamine resin impregnating (印刷及三聚氰胺樹脂浸膠) or melamine resin impregnating only for applying as the surface protection paper (護面層紙), surface paper (面層用紙) and bottom paper (底層用紙) of laminated boards (人造板) such as fiber boards (纖維板) and particle boards (刨花板), etc. The laminated board with the overlay of printed and impregnated decorative base paper are heat-insulated, fire-retarded, non-warp, non-crack, easy-to-clean, variegated colors and patterns, etc.

In accordance with the characteristics and purposes of the application, decorative base paper can be categorized into plain decorative base paper (素色裝飾原紙), printable decorative base paper (可印刷裝飾原紙), surface wear-resistant base paper (表層耐磨原紙), balancing base paper (平衡原紙) and edge sealing band decorative base paper (封邊帶裝飾原紙).

Plain decorative base paper is a single color of decorative base paper for the overlay (貼面) of laminated board. By the process of impregnating, it can be directly applied as the veneer (飾面) of various laminated boards such as medium density fiber board and particle board, etc.

Printable decorative base paper, by the processes of printing different patterns and impregnating, can be applied as the laminated veneer (壓貼飾面) of fire proofing board and laminate flooring (強化木地板).

Surface wear-resistant base paper is a decorative base paper being added the wear-resistant raw material — aluminum oxide (三氧化二鋁). By the process of impregnating, it is mainly applied as the surface protection paper of decoration boards (裝飾板材) such as laminate flooring and top grade fire proofing board, etc.

Balancing base paper, by the process of impregnating, is mainly applied as the underlying (底層) for laminate flooring. Its major role is for balancing the stress of the flooring, preventing warpage and the infiltration of moisture from the ground.

Edge sealing band decorative base paper, by the processes of printing, impregnating, drying and cut-to-roll, is applied in edge sealing for the cross section of the laminated boards made furniture.

ACSP manufacture three types of decorative base papers including plain decorative base paper, printable decorative base paper and balancing base paper.

ASSET VALUED

ACSP has one decorative base paper production line with an annual production capacity of 35,000 tons.

The main systems of the line comprise stock (pulp) preparation system (漿料製備系統), approach flow system (流送系統), paper machine system (紙機系統) and finishing system (完成系統), etc.

The ancillary systems of the line comprise vacuum system, compressed air system, hydraulic system, lubricant system, threading system (引紙系統), steam system, hot air system, hood and air ventilation system (汽罩及排風系統), quality control system (QCS, 紙頁品質控制系統), distributed control system (DCS, 集成管理控制系統, automation of stock preparation system, vacuum system, ventilation and steam system, etc.), machine control system (MCS, 紙機本體控制系統, automation of headbox, forming, pressing, drying, calendering and reeling, etc.) and web inspection system (WIS, 紙頁紙病檢測系統), etc.

The major equipment of the production facilities are manufactured and supplied by French ABK, Shanghai Metso (上海美卓), Finnish POM, Swedish ABS, Hong Kong ABB, Hong Kong Honeywell (香港霍尼韋爾), Taian Prettech (泰安普瑞特), Hunan Zhengda (湖南正大), Shandong Chenzhong (山東晨鐘) and Shanghai Fulin (上海複林), etc.

Other specification of the production line is listed below:

Trimmed Paper Width (淨紙幅寬)	:	2,740 mm
Maximum working speed (最大工作車速)	:	650 m/min
Product Grammage Range (產品定量範圍)	:	50~120 g/m ²
Headbox (流漿箱)	:	Dilution Hydraulic Type (稀釋水型水力式)
Forming Section (成形部)	:	<ol style="list-style-type: none"> 1. Fourdrinier Former (長網式成形器) 2. 14 m Length of Fourdrinier Table (網案長度) 3. 4 Sets of Vacuum Water Suction Tanks (真空吸水箱) 4. Vacuum Couch Roller (真空伏輥)
Press Section (壓榨部)	:	<ol style="list-style-type: none"> 1. Paper Sheet Transferring Mode: Vacuum Suck & Transfer (紙幅移送方式：真空吸移) 2. 3 Pressing Processes (三道壓榨) 3. 3 Pressing Zones (三個壓區)
Drying Section (乾燥部)	:	<ol style="list-style-type: none"> 1. 1,830 mm Diameter of Drying Cylinder 2. 32 Drying Cylinders 3. With Size Press (配置施膠機)
Calender (壓光機)	:	Double Press Zone (4 Rollers) Soft Calender (雙壓區(四輥)軟壓光機)
Pope Reel (卷紙機)	:	Cylinder Type (圓筒式)
Drive Mode (傳動方式)	:	Multi-motor Subsection Drive System (多電動機分部傳動系統)

ACSP's assets included in this valuation are classified as machinery & equipment, motor vehicles and electronic equipment. Machinery & equipment mainly comprises the facilities of decorative base paper production line. Motor vehicle mainly comprises passenger vehicles. Electronic equipment mainly comprises office equipment, administration and management equipment, etc.

The subject Assets are located in the factory of ACSP at No. 69 Wenchang Road, Shouguang City, Shandong Province, the PRC (中國山東省壽光市文昌路69號).

OBSERVATION

During our inspection on 31st January, 2012 to 2nd February, 2012, the commercial operation of ACSP was still ceased.

We were advised by the personnel of ACSP that a team of personnel was retained for the maintenance of the facilities in the factory during the cease period. We were also advised that the preparation works for the recovery of operation were in progress including the acquisition of new steam boiler and the arrangement of electricity supply through the connection to the grid of Shouguang City.

Through our observation on-site, we are of the opinion that although the appraised assets had ceased commercial operation for more than 3 years, their integrity were high and their condition were generally in fair to good condition.

SCOPE OF VALUATION

The scope of this valuation is restricted to the Assets appraised. We have therefore excluded in our valuation whatever land and buildings, current assets, intangible assets and any other assets of ACSP.

BASIS OF VALUE

We have appraised the Assets on the basis of Fair Market Value which is defined as “the estimated amount at which the Assets might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, with equity to both”.

In arriving at an estimate of fair market value, we have adopted the premises of continued use and assumed earnings.

Under the premise of continued use, it was assumed that the subject Assets were to be used for the purpose for which they are designed and built or to which they are currently adapted. The premise implies that the Assets are installed and retained at their present location for continuation as part of the current operations.

This fair market value is not intended to represent the amount that might be realized from piecemeal disposition of the Assets in the open market or from some other uses.

Under the premise of assumed earnings, which assumes that the prospective earnings of the business are adequate to support the level of value concluded plus the value of other assets that are not included in this valuation and sufficient net working capital. We did not investigate any financial information relative to the Assets and did not test the adequacy of the earnings to justify an investment in the Assets at the appraised amount.

This fair market value is made on the assumption that the willing buyer is an end-user. We have not considered offer from prospective buyers who are looking for bargains in speculation of sale for profits commensurate to the time and risks they may have to assume.

This valuation is concerned solely with the value of the Assets and does not attempt to arrive at the value of ACSP as a total business entity. Our opinion of fair market value is not related to or dependent upon the earning capacity of the business.

VALUATION METHODOLOGY

In arriving at an opinion of value, there are three generally accepted approaches, namely, cost, market and income approaches.

The Cost Approach measures value by determining the current cost of reproduction or replacement new of asset and deducting for the various elements of depreciation, physical deterioration and functional and economic obsolescence.

Current cost of reproduction new is the current cost of producing or constructing in new condition an asset in like kind.

Current cost of replacement new is the current cost of producing or constructing in new condition an asset of equivalent utility.

Depreciation is a loss from the upper limit of value, which is the current cost of reproduction or replacement new, installed.

Physical deterioration is the loss in value resulting from wear and tear of an asset in operation and exposure to various elements. This includes such things as age, past service experience, maintenance practice, exposure to the natural elements, the process area environment, internal defects from vibration and operating stress, and the effects of prolonged shutdowns, accidents, and disasters.

Functional obsolescence is the loss in value within the asset as a result of the development of new technology. This includes such things as changes in design, materials, or process resulting in over capacity, inadequacy, excess construction, lack of utility, or excess variable operating costs.

Economic obsolescence is the loss in value resulting from factors external to the asset. This includes such things as reduced demand for the product, increased competition, changes in raw material supplies, increasing costs of raw materials, labor, or utilities without a corresponding price increase of the product, inflation, high interest rates, legislation, and environmental considerations.

Without a known used market as well as lack of any information regarding sale of used asset, the most reliable approach in arriving at an opinion of value is by using the cost approach.

The Market Approach measures the used market where recent sales and offering prices of assets in like kind or equivalent utility, are analyzed to arrive at an indication of the most probable selling price of the asset being appraised.

The used market is an established means of buying and selling asset. It consists of used dealers, auctions, public and private sales. Recent sales and offering prices of the used market reflect the supply and demand and the desires of buyers and sellers in the marketplace and also reflect all elements of depreciation for that asset.

Asset for which known used market existed may be appraised by the market approach.

The Income Approach measures the present worth of the future income of ownership. The approach involves estimating future income by, such as discounted future earnings, direct capitalization, market multiple approach and discounted cash flow, etc., and converting that income to its present worth.

Asset which can generate economic benefits and its income streams can be identified may be appraised by the income approach.

In conducting valuation, all three approaches to value must be considered, as one or more may be applicable to the subject asset. In some situations, elements of the two or three approaches may be combined to reach a value conclusion.

VALUATION PROCESS

In conducting valuation of machinery and equipment, we usually adopt the cost and market approaches. We do not consider the income approach as the appraised assets are part of the aggregation (business enterprise) of various assets (working capital, fixed and intangible assets) for generating an income and it is extremely difficult to identify their individual income streams.

In valuing assets by the cost approach, we initially develop the current cost of reproduction or replacement new and subtract all depreciation. The factors that decrease value are expressed in percentages and converted to dollars or expressed directly in dollars.

The normal cost elements included in either the current cost of reproduction or replacement new estimates are all direct costs, i.e. purchase price new, freight and installation (including foundations, pilings, utility connection, trial runs and debugging), and indirect costs, i.e. design, engineering, supervision, licensing, permits and taxes.

Age is a contributing factor to depreciation of an asset as its value will be highest when it is new, unused, installed, and ready for use. For determining the remaining useful life of the asset, we have referred to the information of life expectancy of a new asset from government, professional and industrial publications.

The trending of historical costs is one popular method of establishing the current cost of replacement or reproduction new. We have adopted the trend index from government, professional and industrial publications, and other published economic statistics.

In valuing assets by the market approach, we analyze recent prices of used assets being the same or similar to the appraised assets by various techniques, namely, direct match, comparable match or percent of cost. Addition and deduction are then made on the indicated market prices for differences such as location, age, capacity and specification between the appraised assets and used market comparatives.

Where the assets are foreign origin and imported from overseas, expenditures normally incurred such as packing and crating charges, inland and ocean freight, insurance, duties and taxes, bank charges and handling are considered.

Due to limited used market information available in the PRC, especially with same or similar products and capacity of ACSP, we have mostly adopted the cost approach to appraise the Assets in the valuation. We have adopted the market approach to appraise the motor vehicles only.

In arriving at our opinion of value and preparation of this valuation report, we have researched and obtained price information (brand new and used, etc.) and reference materials (specification and capacity, etc.) of the appraised assets or similar to the appraised assets through 1) searching on internet web sites; and 2) referring to our own pricing database and publications. We have also referred to the purchase agreements of the appraised assets and other information provided by the Company and ASCP.

In arriving at our opinion of value, we have also considered that the appraised assets were not in use for more than 3 years, they will need a proper tune-ups and necessary repairs before they can be put into operation.

In accordance with the policies and regulations of PRC[(《財政部、國家稅務總局關於全國實施增值稅轉型改革若干問題的通知》(財稅[2008]170號)、《財政部、國家稅務總局關於部分貨物適用增值稅低稅率及簡易辦法徵收增值稅政策的通知》(財稅[2009]9號)、《國家稅務總局關於增值稅簡易徵收政策有關管理問題的通知》(國稅函[2009]90號)], we have thus not considered part of the appraised assets' value-added tax in our calculation of the current cost of reproduction or replacement new.

In accordance with the policies and regulations of PRC[《產業結構調整指導目錄(2011年本)》(國家發展和改革委員會第9號主任令)、《關於執行《產業結構調整指導目錄(2011年本)》(海關總署公告2011年第36號)], the specialty paper project of ACSP, being the state's encouraged project, the tariff of relative imported production machinery and equipment is exempted. We have thus not considered the tariff in our calculation of the current cost of reproduction or replacement new.

DECLARATION

In this valuation engagement, we have been confirmed by the Company with the scope of valuation and have personally conducted an inspection of the Assets on 31st January, 2012 to 2nd February, 2012.

During our inspection, we have interviewed the ACSP's personnel to obtain necessary information and establish condition, utility and history of the Assets.

Due to the constraint of time, environment, location and number of assets, etc., we could not conduct a comprehensive inspection for all assets. We have thus relied on the information including quantity, brand, manufacturer, model, capacity and specification, etc. shown on the listing of the appraised assets, other information provided by the Company and ACSP's personnel we met during our physical inspection.

For those assets not being inspected as well as without any information provided, our valuation has been based on researched materials through internet, industrial publications or our in-house database which were reflected in our opinion of Fair Market Value.

Our valuation is based on the available information and document provided by the Company and ACSP and researched by ourselves. We have therefore relied considerably on the relevant information and document being provided and researched.

During our on-site inspection, we superficially observed the general condition of the Assets and without witnessing every asset in operation. We did not undertake any operational tests as well as structural inspection. We have assumed that they are free from any non-recovery defects and are generally sound.

In arriving at the fair market value, we have adopted the prevailing exchange rate as at 31st December, 2011.

We have not investigated the title to or any liabilities affecting the Assets appraised. No consideration was made for any outstanding amounts owed under financing agreements, if any.

We have assumed that all necessary procedures, licenses, permits and other documents for running the business at the present location were obtained in accordance with any legislations and guidance. We have also assumed that the Assets, without any restrictions, can be freely exchanged in the marketplace.

CERTIFICATION

We have no present or prospective interest of any form in the Assets appraised or the value reported.

Our fee for this valuation is not contingent upon the value or values reported.

The value or values estimated are presented as our considered opinion, based on the facts or data set forth in the report.

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that as at 31st December, 2011, the fair market value of the Assets was fairly represented in the amount of **RMB130,161,804 (RENMINBI ONE HUNDRED THIRTY MILLION ONE HUNDRED SIXTY ONE THOUSAND EIGHT HUNDRED AND FOUR ONLY)**. A breakdown is shown in the summary of values below. Besides, we are of the opinion that there was no material changes in the fair market value of the Assets between 31st December, 2011 and 31st January, 2012.

Summary of Values

	Fair Market Value <i>(RMB)</i> 31st December, 2011
Machinery & Equipment	129,826,268
Motor Vehicles	132,435
Electronic Equipment	203,101
Total:	<u><u>130,161,804</u></u>

This letter is issued subject to our general assumptions and limiting conditions.

Yours faithfully
For and on behalf of
Castores Magi (Hong Kong) Limited

Ernest Cheung Wah Fu
Member of China Institute of
Real Estate Appraisers and Agents
B.Sc MRICS MHKIS RPS MCI Arb
Director

Casey Leung Kin Wah
Senior Valuation Manager
Industrial Services

Note: Mr. Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 19 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

Mr. Casey Leung Kin Wah is a plant and machinery valuer who has 19 years of experience in plant and machinery valuation in Hong Kong, the PRC and the Asia-Pacific region.

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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Each of the executive Directors has entered into a service contract dated 15 November 2010 with the Company for a term of three years commencing from 19 November 2010 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

Each of Mr. Xu Fang and Mr. Wang Junfeng has signed a letter of appointment dated 15 November 2010 with the Company under which each of them has agreed to act as a non-executive Director for a period of three years, commencing from 19 November 2010 and 12 December 2010, respectively, unless terminated in accordance with the terms and conditions specified in such letter.

Each of Mr. Xu Ye and Mr. Wang Zefeng has signed a letter of appointment dated 15 November 2010 with the Company under which each of them has agreed to act as an independent non-executive Director for a period of three years, commencing from 12 December 2010, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Leung Ping Shing has signed a letter of appointment dated 16 November 2010 with the Company under which he has agreed to act as an independent non-executive Director for a period of three years, commencing from 25 November 2010, unless terminated in accordance with the terms and conditions specified in such letter.

Except as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

3. DISCLOSURE OF INTERESTS

(a) Directors' interest in securities

As at the Latest Practicable Date, the Directors listed below had the following interests and short positions in the Shares, underlying shares and debentures of the Company and 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:

(i) Long positions in the Shares

Name of Director	Nature of interest	Total number of Shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Interests of a party to an agreement to acquire interests in the Company ⁽¹⁾	325,387,052	40.54%
Mr. Shi Weixin	Interests of a party to an agreement to acquire interests in the Company ⁽¹⁾	325,387,052	40.54%
Mr. Zhang Zengguo	Interests of a party to an agreement to acquire interests in the Company ⁽¹⁾	325,387,052	40.54%
Mr. Wang Yilong	Interests of a party to an agreement to acquire interests in the Company ⁽¹⁾	325,387,052	40.54%

Note:

- (1) The members of the Controlling Shareholders Group entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007 (the "Concert Parties Agreement"), pursuant to which each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the China Sunshine, China Sunrise and any members of the Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong, is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

(ii) *Long positions in underlying shares of equity derivatives of the Company**Options granted under the Share Option Scheme*

Date of grant	Grantee	Exercise price	Number of share options outstanding	Exercisable period
8 April 2010	An employee	HK\$1.505	800,000	From 1 July 2011 to 31 December 2012
8 April 2010	An employee	HK\$1.505	800,000	From 1 July 2012 to 31 December 2013
8 April 2010	An employee	HK\$1.505	800,000	From 1 July 2013 to 31 December 2014

Note: On 8 April 2010, the Company granted a share option to an employee to subscribe for 1,600,000 Shares at an exercise price of HK\$3.01 per Share. Pursuant to the bonus issue of the Company completed on 2 December 2010, the number of Shares and exercise price per Share under such option have been adjusted to 3,200,000 Shares and HK\$1.505 per Share.

(b) **Substantial shareholders' interests and short positions in shares and underlying shares of the Company**

So far as we, the Directors are aware, as at the Latest Practicable Date, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name		Nature of interest	Total number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	325,387,052	40.54%
China Sunshine ⁽¹⁾	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholders Group ⁽²⁾	Long	Interest of a party to an agreement to acquire interest in the Company	325,387,052	40.54%
Good Rise	Long	Beneficial interest	73,547,674	9.16%
LC Fund III, L.P. ⁽³⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited ⁽⁴⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited ⁽⁵⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited ⁽⁶⁾	Long	Interest of a controlled corporation	73,547,674	9.16%

Name	Nature of interest		Total number of Shares	Approximate percentage of shareholding
Wang Nengguang ⁽⁷⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Seabright	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited ⁽⁸⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited ⁽⁹⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited ⁽¹⁰⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC ⁽¹⁰⁾	Long	Interest of a controlled corporation	71,341,244	8.89%

Notes:

- (1) As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 325,387,052 Shares held by China Sunrise.
- (2) Pursuant to the Concert Parties Agreement, each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the Target Entities and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunshine owns the entire interest of China Sunrise, and the Controlling Shareholders Group owns the entire interest of China Sunshine, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code) is deemed to be interested in the 325,387,052 Shares held by China Sunrise.
- (3) As LC Fund III, L.P. owns the entire interest of Good Rise, LC Fund III, L.P. is deemed to be interested in the 73,547,674 Shares held by Good Rise.
- (4) As LC Fund III GP Limited is the general partner of LC Fund III, L.P., LC Fund III GP Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise.
- (5) As Right Lane Limited controls more than one third of the voting rights of LC Fund III GP Limited, Right Lane Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise.
- (6) As Legend Holdings Limited owns the entire interest of Right Lane Limited, Legend Holdings Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise.
- (7) As Mr. Wang Nengguang controls Good Rise, Mr. Wang Nengguang is deemed to be interested in the 73,547,674 Shares held by Good Rise.
- (8) As Seabright China Special Opportunities (I) Limited owns the entire interest in Seabright, Seabright China Special Opportunities (I) Limited is deemed to be interested in the 71,341,244 Shares held by Seabright.
- (9) As Seabright Asset Management Limited controls more than one third of the voting rights of Seabright China Special Opportunities (I) Limited, Seabright Asset Management Limited is deemed to be interested in the 71,341,244 Shares held by Seabright.

- (10) Each of China Everbright Limited and Seagate Global Advisors, LLC controls more than one third of the voting rights of Seabright Asset Management Limited. Accordingly, each of China Everbright Limited and Seagate Global Advisors, LLC is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at the Latest Practicable Date.

4. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

5. DIRECTORS' OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates has any interest in a business which competes or is likely to compete, whether directly or indirectly, with the business of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting and which was significant in relation to the business of the Group taken as a whole.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

7. QUALIFICATION OF EXPERTS

The following are the qualification of the expert who has given opinion or advice which are contained in this circular.

Name	Qualification
Castores Magi (Hong Kong) Limited Commerce & Finance Law Offices	Professional valuer PRC legal advisors

8. CONSENTS OF EXPERTS

Each of Castores Magi (Hong Kong) Limited and Commerce and Finance Law Offices has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report and/or letter and/or summary of valuations (as the case may be) and references to its name included in the form and context in which it appears.

Each of Castores Magi (Hong Kong) Limited and Commerce & Finance Law Offices does not have any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group with the two years preceding the date of this circular and are or may be material:

- (i) the Auction Agreement; and
- (ii) the Auction Confirmation.

10. OTHER INFORMATION

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited located at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Ng Cheuk Him, who is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong during normal business hours from the date of this circular up to 14 days thereafter:

- (a) the memorandum of association of the Company and the Articles; and
- (b) the service contracts and letters of appointments entered into between the Company and the Directors referred to in the paragraph headed "2. Directors' Service Contracts and Letters of Appointment" in this Appendix;
- (c) the material contracts referred to in the paragraph headed "9. Material Contracts" to this Appendix;
- (d) the annual reports of the Company for the three years ended 31 December 2010;
- (e) the interim reports of the Company for the six months ended 30 June 2011;

- (f) the valuation report on the Properties, the text of which is set out in Appendix II to this circular;
- (g) the valuation report on the Production Facilities and Other Assets, the text of which is set out in Appendix II to this circular;
- (h) the PRC legal opinion dated the date of the circular issued by Commerce & Finance Law Offices, the PRC legal advisors to the Company;
- (i) the written consents from the experts referred to in the paragraph headed “7. Qualification of Experts” in this Appendix; and
- (j) this circular.