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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 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 of 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**

**FORMATION OF A JOINT VENTURE**

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\* For identification purposes only

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## DEFINITIONS

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

“Articles”	the articles of association of the Company
“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Century 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
“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, among others, certain Directors, namely, 王東興 (Mr. Wang Dongxing), 施衛新 (Mr. Shi Weixin) and 張增國 (Mr. Zhang Zengguo)
“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
“controlling shareholder(s)”	has the same 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

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## DEFINITIONS

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“Dragon Chariot”	Dragon Chariot Limited, a company incorporated in Hong Kong with limited liability, the beneficial owners of which and their respective associates are Independent Third Parties
“EGM”	an extraordinary general meeting of the Company, if applicable, to be convened by the Company to consider and, if appropriate, approve the formation of the Joint Venture
“Good Rise”	Good Rise Holdings Limited (好晉控股有限公司), a company incorporated in the British Virgin Islands with limited liability 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
“Independent Third Party(ies)”	a person(s) or company(ies) that is not connected with any member of the Group, or any of the directors, chief executive and the substantial shareholders of the Company or its subsidiaries and their respective associates
“Joint Venture”	the joint venture to be formed under the JV Agreement for the manufacture and sales of decorative paper in the PRC
“JV Agreement”	the joint venture agreement entered into between the Parties dated 3 July 2012 in relation to the formation of the Joint Venture
“JV Company”	陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd.*), a joint venture company to be established in Shouguang City, Shandong Province, PRC for the purpose of the Joint Venture
“JV Partners”	Oji Paper and Dragon Chariot
“Latest Practicable Date”	21 December 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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

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## DEFINITIONS

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“Oji Paper”	Oji Paper Co. Ltd (王子制紙株式會社), a company incorporated in Japan with limited liability, whose shares are listed on the Tokyo Stock Exchange Group, Inc. (stock code: 38610) and Osaka Securities Exchange (stock code: 3861) in Japan
“Parties”	parties to the JV Agreement, being Century Sunshine, Oji Paper and Dragon Chariot
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Seabright”	Seabright SOF (I) Paper Limited, a company incorporated in the British Virgin Islands with limited liability 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)
“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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning as 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

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

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

*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

28 December 2012

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

Dear Sir or Madam,

### MAJOR TRANSACTION

### FORMATION OF A JOINT VENTURE

#### INTRODUCTION

References are made to the announcements of the Company dated 3 July 2012, 5 September 2012 and 26 September 2012.

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 3 July 2012, Century Sunshine has entered into the JV Agreement with Oji Paper and Dragon Chariot for the formation of the Joint Venture. Pursuant to the JV Agreement, upon establishment, the JV Company will be owned as to 51% by Century Sunshine, 29% by Oji Paper and 20% by Dragon Chariot. The principal activities of the JV Company will include the manufacture and sales of speciality paper, in particular, decorative paper, medical wrapping paper and cheque paper, in the PRC.

As disclosed in the announcement of the Company dated 3 July 2012, as one or more of the applicable percentage ratios in respect of the Joint Venture exceed 25% but all those applicable percentage ratios are less than 100%, the formation of the Joint Venture 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 Joint Venture; and (ii) information on the Parties.

The material terms of the JV Agreement are set out below.

### THE JV AGREEMENT

#### 1. Date

3 July 2012

#### 2. Parties

- (i) Century Sunshine, a non-wholly owned subsidiary of the Company
- (ii) Oji Paper, as one of the JV Partners
- (iii) Dragon Chariot, as one of the JV Partners

#### 3. Principal terms

##### *Purpose of the formation of the Joint Venture*

The Parties have agreed to set up the JV Company in Shouguang City, Shandong Province, the PRC with principal activities to manufacture and sell speciality paper, in particular, decorative paper, medical wrapping paper and cheque paper, in the PRC.

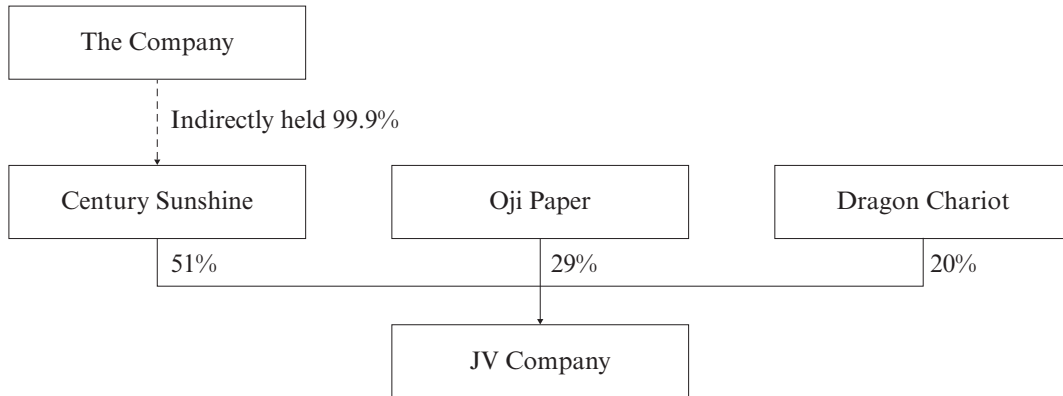
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## LETTER FROM THE BOARD

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### *Ownership*

Pursuant to the JV Agreement, upon establishment of the JV Company, the JV Company will be owned as to 51% by Century Sunshine, 29% by Oji Paper and 20% by Dragon Chariot. The following chart illustrates the shareholding structure of the JV Company upon establishment:



### *Total investment amount and registered capital*

The total investment of the JV Company, other than the registered capital, is yet to be agreed among the Parties as at the Latest Practicable Date.

The maximum total investment of the JV Company is RMB608 million (equivalent to approximately HK\$741.10 million), and its registered capital is RMB203 million (equivalent to approximately HK\$247.44 million).

The registered capital of RMB203 million (equivalent to approximately HK\$247.44 million) will be contributed by the Parties based on their respective interests in the JV Company by either cash or physical assets. As a result, Century Sunshine has committed to contribute RMB103.53 million (equivalent to approximately HK\$126.19 million) of the registered capital of the JV Company.

Solely for the purpose of calculating the applicable percentage ratios, the Company has adopted a prudent approach to assume that the difference between the total investment and the registered capital of the JV Company (i.e., the entire amount of the total investment net registered capital), amounting to RMB405 million (equivalent to approximately HK\$493.66 million), will be contributed by Century Sunshine as the proportion, method and manner in terms of contribution of such difference by each of the Parties are yet to be agreed.



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## LETTER FROM THE BOARD

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*RMB (million)*

Total investment amount of the JV Company	608
Registered capital contribution of the JV Company to be contributed by the Parties	<u>203</u>
Total investment amount yet to be agreed	<u><u>405</u></u>

### *Maximum capital commitment of Century Sunshine*

Based on the approach above in relation to the total investment amount to be invested by Century Sunshine and for the purpose of calculating the applicable percentage ratios under the Listing Rules, the maximum capital commitment of Century Sunshine, as consideration for the establishment of the JV Company, will amount to RMB508.53 million (equivalent to approximately HK\$619.86 million), which is calculated as follows:

*RMB (million)*

Total investment amount yet to be agreed	405
Registered capital contribution of the JV Company to be contributed by Century Sunshine	<u>103.53</u>
Maximum capital commitment of Century Sunshine in the JV Company	<u><u>508.53</u></u>

### *Duties of Century Sunshine*

Within one year from the date of establishment of the JV Company, Century Sunshine shall, among other things, arrange to obtain the ownership certificates for the physical assets to be injected into the JV Company, and to build certain construction and auxiliary facility depending on the needs of the JV Company. Century Sunshine shall employ its sales network in China to enhance JV Company's operating results.

If Century Sunshine will contribute its portion of the registered capital of the JV Company, in whole or in part, by way of cash, such contribution will be made by internally generated funds of Group. If Century Sunshine will, in whole or in part, contribute physical assets as capital contribution towards the JV Company of its portion of registered capital of the JV Company, such assets will be the assets owned by the Group at the time.

### *Duties of Oji Paper*

Oji Paper shall, among other things, assist in the pre-production preparations, provide trainings to staff, second its staff to manage and provide technical support to the JV Company.

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## LETTER FROM THE BOARD

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### *Duties of Dragon Chariot*

Dragon Chariot shall, among other things, provide technical support to the JV Company in relation to the manufacturing of decorative paper, medical wrapping paper and cheque paper.

### *Board of directors*

The board of directors of the JV Company shall consist of seven directors. Century Sunshine shall be entitled to nominate four directors (including the chairman of the board of directors of the JV Company), Oji Paper shall be entitled to nominate two directors (including the vice-chairman of the board of directors of the JV Company) and Dragon Chariot shall be entitled to nominate one director. At least two-third of the board of directors of the JV Company must be present in any board of directors meeting of the JV Company to form a quorum.

For matters of material importance to the structure of or investment through the JV Company, including but not limited to amending the JV Agreement and the articles of association of the JV Company, terminating, dissolving or liquidating the JV Company, approving or amending material plans of the JV Company such as operational, budget and investment plans, and altering the equity or debt structure of the JV Company, must be passed by all of the directors present in the relevant board of directors meeting of the JV Company. Certain other material resolutions of the board of directors of the JV Company, including but not limited to hiring or terminating the employment of any of the senior management of the JV Company, pledging of interests in the JV Company, and initiating, negotiating or settling material litigations or arbitrations, must be passed by two-third majority of the directors present in the relevant board of directors meeting of the JV Company. Other resolutions of the board of directors of the JV Company shall be approved by a simple majority of the directors present in the relevant board of directors meeting of the JV Company.

### *Supervisory committee*

The supervisory committee of the JV Company shall consist of three supervisors, including one chairman. One supervisor shall be nominated by the employees of the JV Company, one supervisor shall be nominated by Oji Paper and one supervisor shall be nominated by Dragon Chariot. The chairman of the supervisory committee shall be elected among the supervisors.

### *Potential further acquisition of assets from Century Sunshine*

Where Century Sunshine contributes physical assets as capital contribution towards the JV Company, an asset transfer agreement shall be executed by the JV Company and Century Sunshine within three days from the date of the initial registered capital contribution by the Parties or as otherwise agreed by the Parties such that the JV Company will acquire additional production facilities for the manufacture

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## LETTER FROM THE BOARD

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of decorative paper from Century Sunshine. The Company will comply with the applicable requirements of the Listing Rules upon signing of the above-mentioned asset transfer agreement as and when required.

#### **4. Conditions**

The formation of the Joint Venture is conditional upon obtaining the approval of the Shareholders and the establishment of the JV Company is subject to the approvals of the relevant PRC authorities.

#### **REASON FOR AND BENEFITS OF THE FORMATION OF THE JOINT VENTURE**

With the expertise of Oji Paper and Dragon Chariot in the production of speciality paper, the Directors believe the JV Partners could contribute their respective strengths in the Joint Venture thus providing the Company with a competitive advantage in enhancing the Company's technical knowhow in the production of specialty paper, and expanding its products portfolio to include specialty paper. The Directors consider the terms of the Joint Venture and the JV Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

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

As the maximum amount of capital to be contributed by Century Sunshine for the establishment of the JV Company, solely for the purpose of calculating the applicable percentage ratios amounts to RMB508.53 million (equivalent to approximately HK\$619.86 million), one or more of the applicable percentage ratios in respect of the formation of the Joint Venture exceed 25% but all those applicable percentage ratios are less than 100%, the formation of the Joint Venture 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 for the formation of the Joint Venture. 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 formation of the Joint Venture, no physical general meeting will be held to approve the formation of the Joint Venture pursuant to Rule 14.44 of the Listing Rules.

#### **INFORMATION ON OJI PAPER**

Oji Paper is a company incorporated in Japan with limited liability whose shares are listed on the Tokyo Stock Exchange Group, Inc. (stock code: 38610) and Osaka Securities Exchange (stock code: 3861) in Japan. Oji Paper is principally engaged in: (i) the production, processing and sales of paper, including printing and writing papers, packaging and wrapping papers, carbonless papers, household products, containerboard and boxboard; (ii) production and sales of end-use products such as corrugated board and

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## LETTER FROM THE BOARD

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boxboard containers, paper board containers, plastics, thermal paper, self-adhesive paper and disposal paper diapers; (iii) production and sales of chemicals for paper making and packing equipment; and (iv) maintenance of the forests owned by Oji Paper.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiry, Oji Paper and its ultimate beneficial owners are Independent Third Parties.

### INFORMATION ON DRAGON CHARIOT

Dragon Chariot is a special purpose vehicle company incorporated solely for the purpose of investing into the JV Company. It is principally engaged in investment holding activities, in particular, holding its equity interest in the JV Company.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiry, Dragon Chariot and its ultimate beneficial owners are Independent Third Parties.

### INFORMATION ON CENTURY SUNSHINE

Century Sunshine is a subsidiary of the Group established in the PRC with limited liability. It is principally engaged in the production and sales 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, core board and specialised paper products.

### RECOMMENDATION

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

### EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ (and vice versa) in this circular at the following rate:

RMB0.8204: HK\$1.00

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## LETTER FROM THE BOARD

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### 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. FINANCIAL INFORMATION OF THE GROUP**

The financial information of the Group:

- (a) 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;
- (b) 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;
- (c) for the year ended 31 December 2011 is disclosed on pages 49 to 126 of the annual report of the Company for the year ended 31 December 2011 dated 27 March 2012; and
- (d) for the six months ended 30 June 2012 is disclosed on pages 18 to 36 of the interim report of the Company for the six months ended 30 June 2012 dated 28 August 2012.

All these reports have been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.sunshinepaper.com.cn](http://www.sunshinepaper.com.cn).

**2. INDEBTEDNESS OF THE GROUP**

As at the close of business on 30 November 2012, being the most practicable date prior to the printing of this circular, the Group had total debt of RMB5,017.0 million as set forth below:

	<i>RMB'000</i>
Bank and other borrowings	3,095,600
Bills payable	90,000
Obligations under finance leases	298,370
Discounted bill financing	<u>1,533,000</u>
	<u><u>5,016,970</u></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 30 November 2012, the 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 Group, existing cash and bank balances as well as banking facilities available, the 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 currently operates five production lines with an aggregate annual designed production capacity of approximately 1,100,000 tons. According to the statistics collated by the China Paper Association, the Group was one of the top fifteen largest paper manufacturers in China in 2011 in terms of production output.

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.

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. Compared to other packaging paper manufacturers in the PRC, the Group is able to develop products and be one of the first in the PRC to supply quality products to meet the market trend.

Urbanisation has been accelerating in China and the PRC government has provided strong support for the construction of economically affordable housing, which in turn provides buoyant demand of the decorative papers in China.

The Group, Oji Paper and Dragon Chariot will form a senior management team to manage the operations of the JV Company. With the expertise of Oji Paper and Dragon Chariot in the production of specialty paper, together with the Group's technical knowhow and experience in paper manufacturing, the Directors believe that the JV Company is set to capture the vast business opportunities by taking advantage of the continuous increase in demand of decorative paper in China.

The current assets and total assets of the Group are expected to increase. The Group may record insignificant losses in relation to the formation of the JV Company during the periods of its pre-operational tune-ups and the early stage of commercial production. However, upon the JV Company operates its production facilities at its optimum conditions, the Directors believe it will further enhance the Group's operating result.

The Directors believe that the formation of the JV Company will bring an additional valuable source of revenue and profit to the Group.

**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.

**2. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS**

Each of Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo, 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.

Mr. Ci Xiaolei, an executive Director, has entered into a service contract dated 24 May 2012 with the Company for a term of three years commencing from 24 May 2012 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 <sup>(1)</sup>	325,387,052	40.54%
	Beneficial owner	4,362,000	0.55%
Mr. Shi Weixin	Interests of a party to an agreement to acquire interests in the Company <sup>(1)</sup>	325,387,052	40.54%
Mr. Zhang Zengguo	Interests of a party to an agreement to acquire interests in the Company <sup>(1)</sup>	325,387,052	40.54%
Mr. Ci Xiaolei	Beneficial owner	829,000	0.10%

*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 and Mr. Zhang Zengguo, 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 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 <sup>(1)</sup>	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholders Group <sup>(2)</sup>	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. <sup>(3)</sup>	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited <sup>(4)</sup>	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited <sup>(5)</sup>	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited <sup>(6)</sup>	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 <sup>(7)</sup>	Long	Interest of a controlled corporation	73,547,674	9.16%
	Long	Interest of a controlled corporation		
Seabright	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited <sup>(8)</sup>	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited <sup>(9)</sup>	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited <sup>(10)</sup>	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC <sup>(10)</sup>	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 2011, being the date to which the latest published audited financial statements of the Group were made up.

**7. MATERIAL CONTRACTS**

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

- (i) an auction agreement entered into between Century Sunshine as the bidder and Linyi Zhengda Auction Co., Ltd.\* (臨沂正大拍賣有限公司) as the auctioneer dated 7 December 2011 in relation to Century Sunshine's participation in an auction for the acquisition of assets;
- (ii) an auction confirmation dated 8 December 2011 entered into between Century Sunshine and Linyi Zhengda Auction Co., Ltd.\* (臨沂正大拍賣有限公司) confirming the successful bid of RMB203 million by Century Sunshine; and
- (iii) the JV Agreement.

**8. 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.

**9. 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;
- (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 "7. Material Contracts" to this Appendix;
- (d) the annual reports of the Company for the three years ended 31 December 2011;

- (e) the interim report of the Company for the six months ended 30 June 2012; and
- (f) this circular.