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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)

CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders (as defined in this circular) is set out on pages 15 to 16 of this circular. A letter from Fortune Financial Capital Limited setting out its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 28 of this circular.

* For identification purposes only

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

“Announcement”	the announcement of the Company dated 31 December 2012
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Cap Amount(s)”	the Steam Supply Annual Cap and the Electricity Supply Annual Cap
“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 under the laws of the PRC with limited liability and an indirect subsidiary of the Company. It is engaged in the business of production and sales of high-grade paper boards and the principal operating subsidiary in the Group
“China Sunrise”	China Sunrise Paper Holdings Limited (formerly known as China Sunshine Paper Holdings Limited), a company incorporated in the Cayman Islands, a Shareholder holding approximately 40.54% interest of the Company as of the Latest Practicable Date
“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 and which is wholly-owned by the Controlling Shareholders Group
“Company”	China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司*), an exempt company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange
“Connected Person(s)”	has the meaning ascribed thereto 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)

DEFINITIONS

“Current Electricity Supply Agreement”	an electricity supply agreement dated 27 October 2009 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine
“Current Steam Supply Agreement”	a steam supply agreement dated 27 October 2009 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine
“Directors”	the directors of the Company
“Electricity Supply Annual Cap”	the proposed cap amount for transactions contemplated under the New Electricity Supply Agreement for each of the three years ending 31 December 2015 as referred to in the sub-paragraph headed “Proposed annual caps” under sub-section B, section II, Part 2 of this circular
“Good Rise”	Good Rise Holdings Limited, a company incorporated in the British Virgin Islands, a Shareholder holding approximately 9.16% interest of the Company as of the Latest Practicable Date
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions
“Independent Shareholders”	Shareholders who have no interests in and who are not required to abstain from voting on a resolution to approve the Non-exempt Continuing Connected Transactions Agreements, the Non-exempt Continuing Connected Transactions and the relevant Cap Amounts pursuant to the Listing Rules
“Latest Practicable Date”	22 January 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“New Electricity Supply Agreement”	an electricity supply agreement dated 31 December 2012 and entered into between Shengshi Thermoelectricity and Shengtai Medicine renewing the Current Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine
“New Steam Supply Agreement”	a steam supply agreement dated 31 December 2012 and entered into between Shengshi Thermoelectricity and Shengtai Medicine, renewing the Current Steam Supply Agreement pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine
“Non-exempt Continuing Connected Transactions”	the transactions contemplated under each of the Non-exempt Continuing Connected Transactions Agreements
“Non-exempt Continuing Connected Transactions Agreements”	the New Steam Supply Agreement and the New Electricity Supply Agreement
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Seabright”	Seabright SOF (I) Paper Limited, a company incorporated in the British Virgin Islands, a Shareholder holding approximately 8.89% interest of the Company as of the Latest Practicable Date
“SFO”	Securities and Futures Ordinance, Cap. 571, Laws of Hong Kong
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.1 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Shengshi Thermoelectricity”	昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.*), a company established under the laws of the PRC and an indirect non-wholly owned subsidiary of the Company which is held as to 80% by Century Sunshine and 20% by Shengtai Medicine
“Shengtai Medicine”	濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.*), a company established under the laws of the PRC which holds 20% equity interest in Shengshi Thermoelectricity

DEFINITIONS

“Steam Supply Annual Cap”	the proposed cap amount for transactions contemplated under the New Steam Supply Agreement for each of the three years ending 31 December 2015 as referred to in the sub-paragraph headed “Proposed annual caps” under sub-section B, section I, Part 2 of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended and supplemented from time to time

Unless otherwise defined, an exchange rate of HK\$1.00 = RMB 0.811 is adopted in this circular, for illustration purposes only.

** For identification purpose 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*)
Mr. Shi Weixin
Mr. Zhang Zengguo
Mr. Ci Xiaolei

Registered office:

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

Non-executive Directors:

Mr. Xu Fang
Mr. Wang Junfeng

Head office and principal

place of business in the PRC:
Changle Economic Development Zone
Weifang 262400
Shandong
China

Independent non-executive Directors:

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

*Principal place of business
in Hong Kong:*

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

29 January 2013

To the Shareholders,

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the Announcement.

* For identification purposes only

LETTER FROM THE BOARD

On 31 December 2012, the Company announced that it has entered into, among others, the Non-exempt Continuing Connected Transactions Agreements in relation to its operations. A brief background of each of the Non-exempt Continuing Connected Transactions Agreements is set out as follows:

New Steam Supply Agreement

As disclosed in the Announcement, pursuant to the Current Steam Supply Agreement, Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for a term of three years with effect from 1 January 2010 to 31 December 2012, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). Since it is expected that the continuing connected transactions for supply of steam contemplated under such agreement will continue going forward, Shengshi Thermoelectricity entered into the New Steam Supply Agreement with Shengtai Medicine on 31 December 2012 for a term of three years from 1 January 2013 to 31 December 2015 on substantially the same terms as the Current Steam Supply Agreement.

New Electricity Supply Agreement

As disclosed in the Announcement, pursuant to the Current Electricity Supply Agreement, Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for a term of three years with effect from 1 January 2010 to 31 December 2012, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). Since it is expected that the continuing connected transactions for supply of electricity contemplated under such agreement will continue going forward, Shengshi Thermoelectricity entered into the New Electricity Supply Agreement with Shengtai Medicine on 31 December 2012 for a term of three years from 1 January 2013 to 31 December 2015 on substantially the same terms as the Current Electricity Supply Agreement.

Further details of the Non-exempt Continuing Connected Transactions Agreements are set out below.

The Independent Board Committee, comprising Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye, has been formed to advise the Independent Shareholders and Fortune Financial Capital Limited has been appointed as the independent financial adviser to advise both the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the respective Cap Amounts.

The purpose of this circular is:

1. to provide you with the details of the Non-exempt Continuing Connected Transactions referred to in this circular;

LETTER FROM THE BOARD

2. to set out the advice of Fortune Financial Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the respective Cap Amounts; and
3. to set out the recommendation of the Independent Board Committee in respect of item 2 above.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. New Steam Supply Agreement

A. *Relationship Between The Parties*

Shengshi Thermoelectricity is held as to 80% by Century Sunshine and 20% by Shengtai Medicine. It is an indirect non-wholly owned subsidiary of the Company.

Shengtai Medicine is interested in the remaining 20% of the registered capital of Shengshi Thermoelectricity, an indirect 80% subsidiary of the Company. Accordingly, it is a connected person of the Company under the Listing Rules.

B. *Principal Terms*

Date of agreement:	31 December 2012
Parties:	Shengshi Thermoelectricity as supplier Shengtai Medicine as customer
Subject:	Supply of steam from Shengshi Thermoelectricity to Shengtai Medicine.
Term:	From 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).
Price:	Pursuant to the New Steam Supply Agreement, Shengshi Thermoelectricity will supply steam to Shengtai Medicine at RMB132.74 per ton (exclusive of tax and subject to adjustment in accordance with any significant increase in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).

LETTER FROM THE BOARD

Payment methods and payment terms:	Pursuant to the New Steam Supply Agreement, the payment should be settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month.
Historical figures:	The historical transaction amounts (exclusive of tax) for the three years ended 31 December 2011 and the first eleven months ended 30 November 2012 are approximately RMB54.6 million, RMB63.2 million, RMB67.4 million and RMB70.8 million, respectively.
Proposed annual caps:	The maximum aggregate annual sales (exclusive of tax) by Shengshi Thermoelectricity to Shengtai Medicine under the New Steam Supply Agreement is estimated not to exceed RMB103.9 million (equivalent to approximately HK\$128.1 million), RMB134.7 million (equivalent to approximately HK\$166.1 million) and RMB174.6 million (equivalent to approximately HK\$215.3 million) (each a “Steam Supply Annual Cap”) respectively for each of the three financial years ending 31 December 2015, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for steam by both Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of steam and the projected growth in the steam production capacity of Shengshi Thermoelectricity.

C. Reasons for and benefits of the New Steam Supply Agreement

Shengshi Thermoelectricity is principally engaged in the supply of electricity (primarily to its shareholders) and steam. It is always the intention of both Century Sunshine and Shengtai Medicine, the only shareholders of Shengshi Thermoelectricity, that the steam produced by Shengshi Thermoelectricity should, as a priority, satisfy the production needs of both parties. In addition, supplying steam to Shengtai Medicine has been generating a reasonable return and revenue to the Group in addition to its core business. As such, the Directors consider that Shengshi Thermoelectricity should continue to supply steam to Shengtai Medicine.

LETTER FROM THE BOARD

The Board (excluding the independent non-executive Directors) considers that the terms of the New Steam Supply Agreement are determined on an arm's length basis and in line with normal commercial terms, and that the terms of the New Steam Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising of the independent non-executive Directors, having taking into account the advice and recommendation from Fortune Financial Capital Limited, is of the view that the New Steam Supply Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the New Steam Supply Agreement and the relevant Cap Amounts are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

II. New Electricity Supply Agreement

A. Relationship Between The Parties

Shengshi Thermoelectricity is held as to 80% by Century Sunshine and 20% by Shengtai Medicine. It is an indirect non-wholly owned subsidiary of the Company.

Shengtai Medicine is interested in the remaining 20% of the registered capital of Shengshi Thermoelectricity, an indirect 80% subsidiary of the Company. Accordingly, it is a connected person of the Company under the Listing Rules.

B. Principal Terms

Date of agreement:	31 December 2012
Parties:	Shengshi Thermoelectricity as supplier Shengtai Medicine as customer
Subject:	Supply of electricity from Shengshi Thermoelectricity to Shengtai Medicine.
Term:	From 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).

LETTER FROM THE BOARD

Price:	Pursuant to the New Electricity Supply Agreement, Shengshi Thermoelectricity will supply electricity to Shengtai Medicine at RMB0.45 per kilowatt-hour (exclusive of tax and subject to adjustment of any significant increase in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).
Payment methods and payment terms:	Pursuant to the New Electricity Supply Agreement, the payment should be settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month.
Historical figures:	The historical transaction amounts (exclusive of tax) for the three years ended 31 December 2011 and the first eleven months ended 30 November 2012 are approximately RMB24.9 million, RMB30.6 million, RMB35.1 million and RMB40.9 million, respectively.
Proposed annual caps:	The maximum aggregate annual sales (exclusive of tax) by Shengshi Thermoelectricity to Shengtai Medicine under the New Electricity Supply Agreement is estimated not to exceed RMB60.8 million (equivalent to approximately HK\$74.9 million), RMB78.8 million (equivalent to approximately HK\$97.2 million) and RMB102.1 million (equivalent to approximately HK\$125.9 million) (each an “Electricity Supply Annual Cap”) respectively for each of the three financial years ending 31 December 2015, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for electricity by both Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of electricity and the projected growth in the electricity production capacity of Shengshi Thermoelectricity.

C. Reasons for and benefits of the New Electricity Supply Agreement

Shengshi Thermoelectricity is principally engaged in the supply of electricity (primarily to its shareholders) and steam. It is always the intention of both Century Sunshine and Shengtai Medicine, the only shareholders of Shengshi

LETTER FROM THE BOARD

Thermoelectricity, that the electricity generated by Shengshi Thermoelectricity should satisfy the production needs of both parties. In addition, supplying electricity to Shengtai Medicine has been generating a reasonable return and revenue to the Group in addition to its core business. As such, the Directors consider that Shengshi Thermoelectricity should continue to supply electricity to Shengtai Medicine.

The Board (excluding the independent non-executive Directors) considers that the terms of the New Electricity Supply Agreement are determined on an arm's length basis and in line with normal commercial terms, and that the terms of the New Electricity Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising of the independent non-executive Directors, having taking into account the advice and recommendation from Fortune Financial Capital Limited, is of the view that the New Electricity Supply Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the New Electricity Supply Agreement and the relevant Cap Amounts are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

3. IMPLICATIONS UNDER THE LISTING RULES

Each of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for each of the transactions contemplated under the New Steam Supply Agreement and the New Electricity Supply Agreement is expected to be higher than 5% on an annual basis, or where a relevant applicable percentage ratio is higher than 5% but less than 25% on an annual basis, it is expected to have an annual consideration of higher than HK\$10 million. Accordingly, the Non-exempt Continuing Connected Transactions Agreements and the transactions contemplated thereunder, including the relevant Cap Amounts, would be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the independent shareholders' approval requirements under the Listing Rules.

The Board (excluding the independent non-executive Directors) considers that the terms of the Non-exempt Continuing Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising of the independent non-executive Directors, having taking into account the advice and recommendation from Fortune Financial Capital Limited, is of the view that the Non-exempt Continuing Connected Transactions Agreements is in the interests of the Company and the Shareholders as a whole and the terms of the Non-exempt Continuing Connected Transactions and the relevant Cap Amounts are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

LETTER FROM THE BOARD

4. CONDITIONS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Non-exempt Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Company on normal commercial terms and subject to the following conditions under the Listing Rules:

1. The total annual transaction amount in respect of each category of the Non-exempt Continuing Connected Transactions will not exceed the relevant Cap Amounts as follows:
 - (a) in relation to the transactions under the New Steam Supply Agreement, the maximum aggregate sales of steam from Shengshi Thermoelectricity to Shengtai Medicine for each of the three financial years ending 31 December 2015 will not exceed RMB103.9 million (equivalent to approximately HK\$128.1 million), RMB134.7 million (equivalent to approximately HK\$166.1 million) and RMB174.6 million (equivalent to approximately HK\$215.3 million) respectively; and
 - (b) in relation to the transactions under the New Electricity Supply Agreement, the maximum aggregate sales of electricity from Shengshi Thermoelectricity to Shengtai Medicine for each of the three financial years ending 31 December 2015 will not exceed RMB60.8 million (equivalent to approximately HK\$74.9 million), RMB78.8 million (equivalent to approximately HK\$97.2 million) and RMB102.1 million (equivalent to approximately HK\$125.9 million) respectively.
2. The Company will comply with Rules 14A.37 and 14A.38 of the Listing Rules for each of the Non-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions Agreements.

5. SHAREHOLDERS' APPROVAL

If the Company were to convene a shareholders' meeting, any connected person and/or any Shareholder with a material interest in the Non-exempt Continuing Connected Transactions and its associates will abstain from voting on the resolutions approving the relevant Non-exempt Continuing Connected Transaction Agreements, the transactions contemplated thereunder and the relevant Cap Amounts.

Having made all reasonable enquiries, the Company is not aware of any Shareholder who will be required to abstain from voting in relation to the resolutions approving the relevant Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the relevant Cap Amounts, if the Company were to convene a shareholders' meeting.

As (i) no Shareholder has any interest in connection with the Non-exempt Continuing Connected Transactions, no Shareholder is required to abstain from voting on the resolutions approving the relevant Non-exempt Continuing Connected Transactions

LETTER FROM THE BOARD

Agreements, transactions contemplated thereunder and the relevant Cap Amounts if the Company were to convene a shareholders' meeting to approve the same and; (ii) for the purpose of approval of the Non-exempt Continuing Connected Transactions, the transactions contemplated thereunder and the relevant Cap Amounts, China Sunrise, Good Rise and Seabright, which are regarded as a closely allied group of Shareholders pursuant to Rule 14A.43(2) of the Listing Rules and hold 325,387,052 Shares (40.54%), 73,547,674 Shares (9.16%) and 71,341,244 Shares (8.89%) of the total issued share capital of the Company (representing 58.59% of the total issued share capital of the Company in aggregate), respectively, as at the Latest Practicable Date, have indicated their consent in respect of the Non-exempt Continuing Connected Transactions, the transactions contemplated thereunder and the relevant Cap Amounts, the Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to hold a physical shareholders' meeting and accept written shareholders' consent to approve the Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the relevant Cap Amounts pursuant to Rule 14A.53.

6. RECOMMENDATION

The Independent Board Committee, comprising Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye, has been formed to advise the Independent Shareholders and Fortune Financial Capital Limited has been appointed as the independent financial adviser to advise both the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the respective Cap Amounts.

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 15 to 16 of this circular which contains its recommendation to the Independent Shareholders.

Your attention is also drawn to the letter from Fortune Financial Capital Limited as set out on pages 17 to 28 of this circular, which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions Agreements.

The Independent Board Committee, having taken into account the advice and recommendation of Fortune Financial Capital Limited, is of the view that the Non-exempt Continuing Connected Transactions Agreements are in the interests of the Company and the Shareholders as a whole and the terms of the Non-exempt Continuing Connected Transactions Agreements and the relevant Cap Amounts are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

The Board is of the opinion that the terms contemplated under each of the Non-exempt Continuing Connected Transactions Agreements, which have been negotiated on an arm's length basis, are on normal commercial terms and are fair and reasonable so far as the interests of the Company and the Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

7. GENERAL

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.

Shengshi Thermoelectricity is principally engaged in the supply of electricity (primarily to its shareholders) and steam.

Shengtai Medicine is principally engaged in the business of production of pharmaceutical products.

8. ADDITIONAL INFORMATION

Your attention is 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



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)

29 January 2013

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to the circular dated 29 January 2013 (the “Circular”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as a Shareholder whether in the views of the Independent Board Committee the terms of the Non-exempt Continuing Connected Transactions Agreements are fair and reasonable and in the interests of the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 14 of the Circular and the letter from Fortune Financial Capital Limited as set out on pages 17 to 28 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Non-exempt Continuing Connected Transactions Agreements, the transactions contemplated thereunder and the relevant Cap Amounts, with the principal factors and reasons for its advice and recommendation.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the advice and recommendation of Fortune Financial Capital Limited, we are of the view that the Non-exempt Continuing Connected Transactions Agreements are in the interests of the Company and the Shareholders as a whole and the terms of the Non-exempt Continuing Connected Transactions Agreements and the relevant Cap Amounts are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
China Sunshine Paper Holdings Company Limited
Leung Ping Shing **Wang Zefeng** **Xu Ye**
Independent non-executive Directors

LETTER FROM FORTUNE FINANCIAL CAPITAL LIMITED

The following is the full text of the letter of advice from Fortune Financial Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Steam Supply Agreement and New Electricity Supply Agreement.



富強金融資本

FORTUNE FINANCIAL CAPITAL

Fortune Financial Capital Limited

35th Floor

Office Tower, Convention Plaza

1 Harbour Road, Wanchai

Hong Kong

29 January 2013

*To: The Independent Board Committee and the Independent Shareholders of
China Sunshine Paper Holdings Company Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the New Steam Supply Agreement and the New Electricity Supply Agreement and (ii) the relevant Cap Amounts. Details of the terms of (i) the New Steam Supply Agreement and the New Electricity Supply Agreement and (ii) the relevant Cap Amounts are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 29 January 2013 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Background and terms of the New Steam Supply Agreement and the New Electricity Supply Agreement are set out in the Letter from the Board. The Company is the holder of 80% of the equity interest of Shengshi Thermoelectricity. Shengshi Thermoelectricity is an indirect subsidiary of the Company. Shengtai Medicine, as a holder of the remaining 20% of the equity interest in Shengshi Thermoelectricity, is therefore a connected person (as defined under the Listing Rules) of the Company. On 31 December 2012, Shengshi Thermoelectricity and Shengtai Medicine entered into the New Steam Supply Agreement and the New Electricity Supply Agreement to renew the Current Steam Supply Agreement and the Current Electricity Supply Agreement which both had been signed on 27 October 2009 and expired on 31 December 2012. As each of the relevant percentage ratios (as

defined under the Listing Rules) for each of the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement is expected to be higher than 5% on an annual basis, or where a relevant applicable percentage ratio is higher than 5% but less than 25% on an annual basis, is expected to have an annual consideration of higher than HK\$10 million, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement constitute non-exempt continuing connected transactions of the Company (the “**Non-exempt Continuing Connected Transactions**”) and would be subject to the reporting, announcement requirements and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

As (i) no Shareholder has any interest in connection with the Non-exempt Continuing Connected Transactions, no Shareholder is required to abstain from voting on the resolutions approving the Non-exempt Continuing Connected Transactions if the Company were to convene the shareholders’ meeting to approve the same and; (ii) for the purpose of approval of the Non-exempt Continuing Connected Transactions, China Sunrise, Good Rise and Seabright, which are regarded as a closely allied group of Shareholders pursuant to Rule 14A.43(2) of the Listing Rules, held 325,387,052 Shares (40.54%), 73,547,674 Shares (9.16%) and 71,341,244 Shares (8.89%) of the total issued share capital of the Company, respectively (representing 58.59% of the total issued share capital of the Company in aggregate), as at the Latest Practicable Date, have indicated their consent in respect of the Non-exempt Continuing Connected Transactions, the Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to hold a physical shareholders’ meeting and accept written shareholders’ consent to approve the Non-exempt Continuing Connected Transactions pursuant to Rule 14A.53 of the Listing Rules.

An Independent Board Committee comprising Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye (all being independent non-executive Directors) has been established by the Company to advise the Independent Shareholders as to whether the New Steam Supply Agreement and the New Electricity Supply Agreement are in the ordinary and usual course of business of the Company and on normal commercial terms and the terms of the transaction under the New Steam Supply Agreement and the New Electricity Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so up to the date of despatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and

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intention made by the Directors in the Circular were reasonably made after due enquires and careful considerations and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility, which includes particulars given in compliance with the Listing Rules, for the purpose of giving information with regard to the Company. The Directors have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, that the information contained in the 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 the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-exempt Continuing Connected Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

Background of 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.

Background of Shengshi Thermoelectricity

Shengshi Thermoelectricity, an indirect non-wholly owned subsidiary of the Company held as to 80% by Century Sunshine, is engaged in the supply of electricity (primarily to its shareholders) and steam.

Background of Shengtai Medicine

Shengtai Medicine is principally engaged in the business of production of pharmaceutical products, and holds 20% equity interest in Shengshi Thermoelectricity.

1. New Steam Supply Agreement

In arriving at our opinion on the terms of the New Steam Supply Agreement, we have taken into consideration the following principal factors and reasons:

Principal terms of the New Steam Supply Agreement:

Date	:	31 December 2012
Subject matter	:	Pursuant to the New Steam Supply Agreement, Shengshi Thermoelectricity has agreed to supply steam to Shengtai Medicine for a term of three years
Supplier	:	Shengshi Thermoelectricity
Customer	:	Shengtai Medicine
Term	:	3 years, starting from 1 January 2013 and ending on 31 December 2015
Payment terms	:	the payment should be settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month

Pricing policy

As disclosed in the Letter from the Board, the price of steam sold under the New Steam Supply Agreement will be RMB132.74 per ton (exclusive of tax and subject to adjustment of any significant change in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity), which is the same as the price of steam sold by Shengshi Thermoelectricity to Century Sunshine (the “**Steam Price**”).

In arriving at our recommendation in respect of the Steam Price, we have taken into consideration the following principal factors and reasons:

a) Availability of customers and piping infrastructure

The sale of steam to customers would require piping infrastructure to deliver the steam directly to the customers. As advised by the Company, Shengshi Thermoelectricity sells minimal amount of steam to local factories and residents at a retail price that is higher than the Steam Price. However, as the demands from such factories and residents are very limited, Shengshi Thermoelectricity only has a limited opportunity to sell steam at such a retail price. As the principal business of the Group is not in the retailing of steam, the Directors do not believe that it is productive to invest in additional steam piping infrastructure to obtain additional retail sales.

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In view of such limited sales opportunity and the investment cost on development of the piping infrastructure to the local factories and residents, the Steam Price offered by Shengshi Thermoelectricity to Shengtai Medicine, which is lower than the retail price to local factories and residents is fair and reasonable.

b) Similar pricing to the Group

We have reviewed the invoices of Shengshi Thermoelectricity provided by the Company and noted that the Steam Price offered by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of steam sold by Shengshi Thermoelectricity to Century Sunshine which ensures that Shengtai Medicine is treated equally as the Group regarding pricing of the steam supplied by Shengshi Thermoelectricity.

c) Profitable operation of Shengshi Thermoelectricity

Shengshi Thermoelectricity is a profitable subsidiary within the Group, and has recorded positive profit since the financial year ended 31 December 2006. References are made to the latest annual report and interim report of the Group showing that Shengshi Thermoelectricity has made a reportable segment profit of approximately RMB42.9 million and RMB35.2 million for the financial year ended 31 December 2011 and the six months ended 30 June 2012, respectively.

Based on the above, we are of the view that the pricing policy under the New Steam Supply Agreement is fair and reasonable.

Annual caps and basis of determination

The following table sets out the historical transaction amounts (exclusive of tax) for steam sold to Shengtai Medicine by Shengshi Thermoelectricity for each of the three financial years ended 31 December 2011 and the eleven months ended 30 November 2012, and the Steam Supply Annual Cap as contemplated under the New Steam Supply Agreement:

Historical transaction amount (RMB million)				Steam Supply Annual Cap For the year ending 31 December (RMB million)		
For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the eleven months ended 30 November 2012	2013	2014	2015
54.6	63.2	67.4	70.8	103.9	134.7	174.6

In our view, the Steam Supply Annual Cap is closely related to the price of thermal coal, the steam generation capacity of Shengshi Thermoelectricity and the demand for steam by Shengtai Medicine over the next three years. Therefore, to arrive at our view on the Steam Supply Annual Cap, we have considered the following factors:

a) Price of thermal coal

As thermal coal is the main source of raw materials in generating steam supply, we consider that the trend of Steam Price is closely affected by the change in thermal coal price. Based on monthly statistics provided by the International Monetary Fund as extracted on the date of the Announcement, the Australian thermal coal was sold at approximately US\$86 per metric ton in January 2009 and rose to a peak of approximately US\$142 per metric ton in January 2011 and eventually fell back to the current level of approximately US\$89 per metric ton.

The Company presented to us that the average selling price for steam of Shengshi Thermoelectricity for the first eleven months in 2012 was approximately RMB142.48 per ton exclusive of tax. As the basis for calculating the Steam Supply Annual Cap for the year ending 31 December 2013, the Company has used an average selling price of RMB167.25 per ton exclusive of tax, representing an approximately 17% increase from the average selling price for steam of Shengshi Thermoelectricity to both Century Sunshine and Shengtai Medicine for the first eleven months in 2012. The Company also projected the annual growth rate of the price of steam would be approximately 20% from 2013 to 2015. As advised by the management of the Company, such growth rate of approximately 17%–20% has taken into account the pricing fluctuation of thermal coal recorded from an average purchase price of approximately US\$142 per metric ton in January 2011 to approximately US\$89 per metric ton in November 2012, which represents a huge fluctuation of thermal coal price with a decrease of approximately 40% in almost 2 years-time. The current thermal coal price is near to the price level as shown in January 2009 of US\$86 per metric ton, and the management of the Company anticipated that the thermal coal price will be rebounded in the coming years. In view of the current thermal coal price is at the relatively low level of the trend shown during the period from January 2009 to January 2011, the management of the Company, after prudent consideration, has taken into account the potential rise in the price of thermal coal in the PRC for the coming years with a reasonable buffer in formulating the average selling price for the Steam Supply Annual Cap. After considering the fluctuation of thermal coal price mentioned above, we are of the view that the estimated growth rate of approximately 17–20% in determining the average selling price adopted by the Company for the Steam Supply Annual Cap provides a reasonable buffer and is fair and reasonable.

b) Steam demand of Shengtai Medicine and general growth in China's economy

The Company has advised us that the additional production capacity of Shengtai Medicine in their plant has been commenced operation since 2011 and recorded a full year operation in 2012. As advised by the Company, it is anticipated that the future demand of steam of Shengtai Medicine will be driven mainly by the organic growth of Shengtai Medicine which will be in line with the general economic development in the PRC. As of the date of the Announcement, the Company estimated that the steam demands by Shengtai Medicine would be approximately 550,000 tons for the year ended 31 December 2012. In calculating the Steam Supply Annual Cap, the steam demands by Shengtai Medicine are expected to be approximately 622,000 tons; 671,000 tons and 725,000 tons for each of the three years ending 31 December 2015 respectively which represent a growth rate of approximately 13% in 2013 and approximately 8% in each of 2014 and 2015. The expected CAGR between 2012 and 2015 will be approximately 9.7%.

Although the European sovereign-debt crisis in early 2010 has caused collapse of global economy, there have been signs of recovery in the PRC since second half of 2012. Despite that The World Bank has revised its 2012 forecast of China's gross domestic product ("GDP") growth from 8.2% to 7.7%, it expects the GDP in China to grow at 8.1% for 2013. The World Bank also expects growth in China to pick up in 2013, taking into consideration the monetary policy measures introduced by the PRC government earlier this year and a potential acceleration of central government investment spending. For calculation of the Steam Supply Annual Cap, the Company has assumed CAGR of approximately 9.7% for Shengtai Medicine's demand between 2012 and 2015. Although the assumed 9.7% growth is higher than the aforesaid GDP forecast, we believe that such rate is in line with the trend of the forecasted GDP of 8.1% with a reasonable buffer to the forecasted GDP growth and is fair and reasonable.

c) Steam generation capacity

As advised by the Company, Shengshi Thermoelectricity's current steam generation capacity is approximately 7.75 million tons per year. Taking into consideration approximately 80% of the steam generation capacity of Shengshi Thermoelectricity will be utilised by the Group, the remaining 20% of the steam generation capacity, which is approximately 1.55 million tons, would be adequate to satisfy the anticipated steam demand by Shengtai Medicine. In calculating the Steam Supply Annual Cap, the Company has assumed a total steam supply of approximately 622,000 tons, 671,000 tons and 725,000 tons, by Shengshi Thermoelectricity for each of the three years ending 31 December 2015, respectively. Therefore, the assumed total steam supply is reasonable as it is within the steam generation capacity of Shengshi Thermoelectricity.

Reasons for entering into of the New Steam Supply Agreement

Shengshi Thermoelectricity has been supplying steam to the Group and Shengtai Medicine since its commencement of operation. As the Group cannot consume all of the steam produced by Shengshi Thermoelectricity, excess steam has been sold to Shengtai Medicine and to other local factories and residents. As mentioned above, the Group's core business is not in steam generation, and thus the Group has no intention to further invest in infrastructure to increase its steam generation capacity of Shengshi Thermoelectricity to serve more local retail clients. With a limited customer base, it is reasonable for Shengshi Thermoelectricity to sell excess steam to Shengtai Medicine as well as it can generate additional income to the Group. Given that the transactions under the New Steam Supply Agreement are revenue in nature and the New Steam Supply Agreement is entered into by the Group for the purpose of the renewal of the terms and conditions of the Current Steam Supply Agreement, we are of the view that the New Steam Supply Agreement is on normal commercial terms and entered into by the Group in its ordinary and usual course of business, and the terms of the transactions contemplated under the New Steam Supply Agreement are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole after taking into account the factors and reasons considered by us above.

2. New Electricity Supply Agreement

In arriving at our opinion on the terms of the New Electricity Supply Agreement, we have taken into consideration the following principal factors and reasons:

Principal terms of the New Electricity Supply Agreement:

Date	:	31 December 2012
Subject matter	:	Pursuant to the New Electricity Supply Agreement, Shengshi Thermoelectricity has agreed to supply electricity to Shengtai Medicine for a term of three years
Supplier	:	Shengshi Thermoelectricity
Customer	:	Shengtai Medicine
Term	:	3 years, starting from 1 January 2013 and ending on 31 December 2015
Payment terms	:	the payment should be settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month

Pricing policy

As disclosed in the Letter from the Board, the price of electricity sold under the New Electricity Supply Agreement will be RMB0.45 per kilowatt-hour (exclusive of tax and subject to adjustment of any significant change in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity), which is the same as the price of electricity sold by Shengshi Thermoelectricity to Century Sunshine (the “**Electricity Price**”).

In arriving at our recommendation in respect of the Electricity Price, we have taken into consideration the following principal factors and reasons:

a) Availability of customers and electricity infrastructure

The sale of electricity to retail customers would require license that Shengshi Thermoelectricity does not possess. Furthermore, the Group’s core business is not in the retailing of electricity, and thus the Directors do not believe that it is productive to invest in infrastructure required to distribute electricity to retail customers.

b) Similar pricing to the Group

We have reviewed the invoices of Shengshi Thermoelectricity provided by the Company and noted that the Electricity Price offered by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of electricity sold by Shengshi Thermoelectricity to Century Sunshine which ensures that Shengtai Medicine is treated equally as the Group regarding pricing of the electricity supplied by Shengshi Thermoelectricity.

c) Profitable operation of Shengshi Thermoelectricity

Shengshi Thermoelectricity is a profitable subsidiary within the Group, further details of which are set out in the paragraph headed “Profitable operation of Shengshi Thermoelectricity” under the section headed “New Steam Supply Agreement” above.

Based on the above, we are of the view that the pricing policy under the New Electricity Supply Agreement is fair and reasonable.

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Annual caps and basis of determination

The following table sets out the historical transaction amount (exclusive of tax) for electricity sold to Shengtai Medicine by Shengshi Thermoelectricity for each of the three financial years ended 31 December 2011 and the eleven months ended 30 November 2012, and the Electricity Supply Annual Cap as contemplated under the New Electricity Supply Agreement:

Historical transaction amount (RMB million)				Electricity Supply Annual Cap For the year ending 31 December (RMB million)		
For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the eleven months ended 30 November 2012	2013	2014	2015
24.9	30.6	35.1	40.9	60.8	78.8	102.1

In our view, the Electricity Supply Annual Cap is closely related to the price of thermal coal, the electricity generation capacity of Shengshi Thermoelectricity and the demand for electricity by Shengtai Medicine over the next three years. Therefore, to arrive at our view on the Electricity Supply Annual Cap, we have considered the following factors:

a) Price of thermal coal

As thermal coal is the main source of raw materials in generating electricity supply, we consider that the trend of Electricity Price is closely affected by the change in thermal coal price. As advised by the Company, in calculating the Electricity Supply Annual Cap, the Company has used an average selling price of RMB0.57 per kilowatt-hour exclusive of tax for the year ending 31 December 2013, which is an approximately 16% increase from average selling pricing from Shengshi Thermoelectricity to both Century Sunshine and Shengtai Medicine for the first eleven months in 2012 of RMB0.49 per kilowatt-hour exclusive of tax. The Company also projected the annual growth rate of the price of electricity would be approximately 20% from 2013 to 2015. For the reasons as considered in the paragraph headed “Price of thermal coal” under the section headed “New Steam Supply Agreement” above, we are of the view that an estimate of approximately 16–20% annual increase in electricity pricing due to thermal coal pricing fluctuations in determining the average selling price adopted by the Company for the Electricity Supply Annual Cap provides a reasonable buffer and is fair and reasonable.

b) Electricity demand of Shengtai Medicine and general growth in China's economy

As mentioned above, the Company has advised us that the additional production capacity of Shengtai Medicine in their plant has been commenced operation since 2011 and recorded a full year operation in 2012. As advised by the Company, it is anticipated that the future demand of electricity of Shengtai Medicine will be driven mainly by the organic growth of Shengtai Medicine which will be in line with the general economic development in the PRC. As of the date of the Announcement, the Company estimated that the electricity demands by Shengtai Medicine would be approximately 95.0 million kilowatt hour for the year ended 31 December 2012. In calculating the Electricity Supply Annual Cap, the electricity demands by Shengtai Medicine are expected to be approximately 107.4 million kilowatt hour; 115.9 million kilowatt hour and 125.2 million kilowatt hour for each of the three years ending 31 December 2015, respectively which represent a growth rate of approximately 13% in 2013 and approximately 8% in each of 2014 and 2015. The expected CAGR between 2012 and 2015 is approximately 9.6%.

Although the assumed 9.6% growth is higher than the The World Bank's GDP forecast of 8.1% as discussed above, we believe that such rate is in line with the trend of the forecasted GDP with a reasonable buffer to the forecasted GDP growth and is fair and reasonable.

c) Electricity generation capacity

As advised by the Company, Shengshi Thermoelectricity's current electricity generation capacity is approximately 940 million kilowatt-hour per year. Taking into consideration approximately 80% of the electricity generation capacity of Shengshi Thermoelectricity is being utilised by the Group, the remaining 20% of the electricity generation capacity, which is amounted to approximately 188 million kilowatt-hour per year, would be adequate to satisfy the anticipated electricity demand by Shengtai Medicine. In calculating the Electricity Supply Annual Cap, the Company assumed a total electricity supply of approximately 107.4 million kilowatt-hour, 115.9 million kilowatt-hour and 125.2 million kilowatt-hour, by Shengshi Thermoelectricity for each of the three years ending 31 December 2015, respectively. Therefore, the assumed total electricity supply is reasonable as it is within the electricity generation capacity of Shengshi Thermoelectricity.

Reasons for the New Electricity Supply Agreement

Shengshi Thermoelectricity has been supplying electricity to the Group and Shengtai Medicine since the commencement of its operation. As the main purpose of the Group's and Shengtai Medicine investment in Shengshi Thermoelectricity is to ensure there is a constant supply of electricity at a relatively lower electricity cost, therefore electricity generated by Shengshi Thermoelectricity will always be sold to the Group and Shengtai Medicine. As mentioned above, the Group's core business is not

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in electricity generation, and thus the Group does not intend to invest further to fulfill the licensing requirement and in the construction of infrastructure and supply of additional electricity to serve retail clients. With a limited customer base, it is reasonable for Shengshi Thermoelectricity to sell excess electricity to Shengtai Medicine as well as it can generate additional income to the Group. Given that the transactions under the New Electricity Supply Agreement are revenue in nature and the New Electricity Supply Agreement is entered into by the Group for the purpose of the renewal of the terms and conditions of the Current Electricity Supply Agreement, we are of the view that the terms of the New Electricity Supply Agreement is on normal commercial terms and entered into by the Group in its ordinary and usual course of business, and the terms of the transactions contemplated under the New Electricity Supply Agreement are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole after taking into account the factors and reasons considered by us above.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the New Steam Supply Agreement and New Electricity Supply Agreement are in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the Non-exempt Continuing Connected Transactions if a general meeting were to convene.

Yours faithfully,
For and on behalf of

FORTUNE FINANCIAL CAPITAL LIMITED

Eric Koo
Managing Director

Stanley Chung
Director

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. 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 for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(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 ^(Note)	325,387,052	40.54%
	Beneficial owner	4,686,000	0.58%
Mr. Shi Weixin	Interests of a party to an agreement to acquire interests in the Company ^(Note)	325,387,052	40.54%
Mr. Zhang Zengguo	Interests of a party to an agreement to acquire interests in the Company ^(Note)	325,387,052	40.54%
Mr. Ci Xiaolei	Beneficial owner	929,000	0.11%

Note: 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. Each of Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo is a director of China Sunrise and China Sunshine. China Sunrise holds 325,387,052 Shares and China Sunshine is deemed to be interested in the Shares held by China Sunrise as China Sunrise is a direct wholly owned subsidiary of China Sunshine. The interests in the Shares of both China Sunrise and China Sunshine are required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. FURTHER INFORMATION CONCERNING DIRECTORS

A. Directors' service agreements and letters of appointment

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).

B. Competing 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.

C. Directors' interests in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or are proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2011, being the date on which the latest published audited financial statements of the Group were made up, and up to the Latest Practicable Date.

D. Directors' interests in contracts

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 was subsisting and was significant in relation to the business of the Group taken as a whole.

None of the Directors has a material interest in the Non-exempt Continuing Connected Transactions.

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. 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 on which the latest published audited financial statements of the Group were made up.

Save as disclosed in this circular, the entering into by the Company of the continuing connected transactions agreements will not have any adverse effect on the operation, liquidity and financial resources, and capital structure of the Company.

6. QUALIFICATIONS OF EXPERT

The following is the qualification of the expert or professional adviser who has given opinion or advice contained in this circular:

Name	Qualifications
Fortune Financial Capital Limited	licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO

7. CONSENTS OF EXPERT

Fortune Financial Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

8. INTERESTS OF EXPERT

As at the Latest Practicable Date, Fortune Financial Capital Limited:

- (a) did not have any shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) was not interested, directly or indirectly, in any assets which had been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2011, being the date on which the latest published audited accounts of the Company were made up.

9. GENERAL

- (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 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.

10. 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 and articles of association of the Company;
- (b) the annual report of the Company for the financial year ended 31 December 2011;
- (c) the interim report of the Company for the six months ended 30 June 2012;
- (d) the Non-exempt Continuing Connected Transactions Agreements;
- (e) the service agreements and letters of appointment of the Directors of the Company referred to in paragraph 3 of this appendix;
- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this circular;
- (g) the letter of advice from Fortune Financial Capital Limited, the text of which is set out on pages 17 to 28 of this circular; and
- (h) the written consent from Fortune Financial Capital Limited referred to in paragraph 7 of this appendix.