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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 your shares in China Sunshine Paper Holdings Company Limited, you should at once hand this circular together with the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker, the licensed securities dealer 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)

### PROPOSED ISSUE OF NEW SHARES UNDER THE SHARE AWARD SCHEME PURSUANT TO SPECIFIC MANDATE

### CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED ISSUE OF NEW SHARES UNDER THE SHARE AWARD SCHEME TO CONNECTED PERSONS PURSUANT TO SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



**Shinco Capital Limited**

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A notice convening the extraordinary general meeting (the “EGM”) of China Sunshine Paper Holdings Company Limited (the “Company”) to be held at China Sunshine Paper Office Tower, Changle Economic Development Zone, Weifang, Shandong, China on Friday, 29 September 2017 at 10:00 a.m. is set out on pages 44 to 45 of this circular. Resolutions will be proposed at the EGM to consider and, if thought fit, to approve, among other matters, the grant of the Awarded Shares, a specific mandate for the allotment and issue of the Awarded Shares to the Selected Participants.

A proxy form is enclosed with this circular. Whether or not you are intending to attend and vote at the EGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed on such form to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong, Investor Services Limited, at Shop 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment of such meeting. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM in person or any adjourned meeting, as the case may be, should you so desire.

\* For identification purposes only

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## CONTENTS

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	<i>Page</i>
<b>Responsibility statement</b> .....	ii
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	20
<b>Letter from Shinco Capital</b> .....	22
<b>Appendix — General Information</b> .....	38
<b>Notice of EGM</b> .....	44

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## **RESPONSIBILITY STATEMENT**

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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.

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

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall 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
“Award(s)”	award of Shares by the Company to any Selected Participant(s) under the Scheme
“Awarded Share(s)”	in respect of any Selected Participant(s), such number of Shares subject to Award(s) as determined by the Board
“Board”	the board of Directors
“China Sunrise”	China Sunrise Paper Holdings Limited (formerly known as China Sunshine Paper Holdings Limited), a company established under the laws of the Cayman Islands with limited liability on 3 April 2006, which is a wholly-owned subsidiary of China Sunshine and a controlling shareholder of the Company
“China Sunshine”	China Sunshine Paper Investments Limited (中國陽光紙業投資有限公司), a company established under the laws of the British Virgin Islands with limited liability on 14 March 2006 and which is wholly-owned by the Controlling Shareholders Group that includes certain Directors, namely, 王東興 (Mr. Wang Dongxing), 施衛新 (Mr. Shi Weixin), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai), and a member of the senior management of the Group, namely, 陳效雋 (Mr. Chen Xiaojun)
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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
“Concert Parties Agreement”	an agreement entered into between the members of the Controlling Shareholders Group on 16 June 2006 and as amended by a supplemental agreement entered into by the same parties on 19 November 2007
“Connected Awarded Shares”	an aggregate of 15,972,000 Awarded Shares which are proposed to be awarded to the Connected Selected Participants

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## DEFINITIONS

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“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Connected Selected Participant(s)”	Selected Participant(s) who is a Director, or a director of subsidiary of the Company, being connected person of the Company
“controlling shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“Controlling Shareholders Group”	a group of 18 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), 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), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai)
“Director(s)”	the director(s) of the Company
“EGM”	extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, to approve the allotment and issue of the Awarded Shares to the Selected Participants
“Eligible Participant(s)”	any Director (whether executive or non-executive), senior management and employee of the Company or its subsidiaries (including but not limited to office managers, regional directors, senior managers, office directors, general managers and chief executive officers), but excluding the following persons: (i) any seconded employee, part-time employee or non-full time employee of the Group; (ii) any employee of the Group who at the relevant time has given or been given notice terminating his office or directorship, as the case may be; and (iii) any other person that the Board may determine from time to time
“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 Awarded Shares”	an aggregate of 802,000 Awarded Shares which are proposed to be awarded to the Independent Selected Participant

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors, established by the Company to advise the Independent Shareholders on the grant of the Connected Awarded Shares to the Connected Selected Participants
“Independent Financial Adviser” or “Shinco Capital”	Shinco Capital Limited, a corporation licensed under SFO to conduct Type 6 (advising on corporate finance) regulated activity, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the grant of Connected Awarded Shares to Connected Selected Participants
“Independent Selected Participant”	Mr. Liu Wenzheng (劉文政), a Selected Participant who is not a connected person of the Company
“Independent Shareholders”	the Shareholders who are independent of, and not connected with, the Connected Selected Participants and their respective associates and are not required to abstain from voting at the EGM
“Latest Practicable Date”	29 August 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Memorandum”	the memorandum of association of the Company
“Ordinary Resolution(s)”	the proposed ordinary resolution(s) as referred to in the EGM notice
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the share award scheme adopted by the Board on 27 June 2017
“Selected Participant(s)”	those Eligible Participants selected by the Board for participation in the Scheme
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	the ordinary share(s) with par value of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 19 November 2007
“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 Code on Takeovers and Mergers and Share Buy-backs in Hong Kong
“Target Entities”	China Sunshine, China Sunrise and any members of the Group
“%”	per cent

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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. Wang Changhai (*General Manager*)  
Mr. Zhang Zengguo (*Deputy General Manager*)

*Non-executive Directors:*

Mr. Xu Leihua  
Mr. Li Hengwen

*Independent non-executive Directors:*

Ms. Shan Xueyan  
Mr. Wang Zefeng  
Ms. Jiao Jie

*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:*

Rooms 801 & 803, 8/F.  
Beverly House  
93-107 Lockhart Road  
Wanchai  
Hong Kong

1 September 2017

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

Dear Sir or Madam,

**PROPOSED ISSUE OF NEW SHARES  
UNDER THE SHARE AWARD SCHEME PURSUANT TO  
SPECIFIC MANDATE**

**CONNECTED TRANSACTIONS IN RELATION TO  
THE PROPOSED ISSUE OF NEW SHARES  
UNDER THE SHARE AWARD SCHEME TO CONNECTED PERSONS  
PURSUANT TO SPECIFIC MANDATE  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

\* For identification purposes only



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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the announcement of the Company dated 27 June 2017 in relation to the adoption of the Scheme and the announcement dated 21 July 2017 in relation to the grant of the Awarded Shares.

The purpose of this circular is to provide you with further details of the Awarded Shares and to give notice to the Shareholders of the EGM at which ordinary resolutions will be proposed to approve the grant of specific mandate for the allotment and issue of the Awarded Shares and to provide other relevant information in accordance with the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the award of the Connected Awarded Shares to the Connected Selected Participants is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Shinco Capital has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the award of the Connected Awarded Shares to the Connected Selected Participants.

### DETAILS OF THE AWARDED SHARES

According to the Scheme, the Board may from time to time at its absolute discretion select any Eligible Participant(s) for participation in the Scheme. In selecting Eligible Participant(s) as awardees, the Board will generally consider the responsibilities, contribution and remuneration packages (in particular historical remuneration) of the relevant Eligible Participant(s) as compared against the market level of emoluments.

In determining the number of Awarded Shares, the Board may take into consideration matters including (without limitation) the present contribution and expected contribution of the Selected Participant to the profits of the Group, the general financial condition of the Group and the Group's overall business objectives and future development plan.

In selecting the awardees and deciding the number of Awarded Shares to be granted, the following benchmarks will be taken into account:

- (i) the number of years that the Eligible Participant(s) has worked with the Group, which shall generally be not less than five years;
- (ii) the role and responsibilities of the Eligible Participant(s) and the Board will pay more emphasis on their senior management role in subsidiary level or listco level;
- (iii) the specific expertise of the Eligible Participant(s), such as paper industry, financial, corporate governance, etc.;
- (iv) the performance of the Eligible Participant(s) in terms of research and development, market expansion, costs reduction, etc.; or

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## LETTER FROM THE BOARD

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- (v) the remuneration of the executive management level personnel of the Group compared against other comparable listed companies in Hong Kong engaging in similar business.

On 21 July 2017, the Board has resolved to, subject to the approval of the Shareholders, grant a total of 16,774,000 Awarded Shares to three Selected Participants under the Scheme by way of allotment and issue of new Shares pursuant to the specific mandate which may be granted by the Shareholders at the EGM. The Board considered the remuneration of the executive management level personnel of the other listed companies in Hong Kong engaging in similar business, including Lee & Man Paper Manufacturing Limited (stock code: 2314), Samson Paper Holdings Limited (stock code: 731), Shandong Chenming Paper Holdings Limited (stock code: 1812), Nine Dragons Paper (Holdings) Limited (stock code: 2689), Zhengye International Holdings Company Limited (stock code: 3363), Youyuan International Holdings Limited (stock code: 2268), Hop Fung Group Holdings Limited (stock code: 2320) and Come Sure Group (Holdings) Limited (stock code: 794) (“**Comparables**”) and noted that the total emoluments (which include director fees, salaries and other benefits and performance related incentive payments (if any)) of the Selected Participants in the past were significantly lower than the market level of emoluments. It was noted from the public information that for the recent five audited financial year, (i) the chairmen of each of the Comparables was granted an average annual emolument ranging from approximately HK\$1,550,000 to approximately HK\$10,760,000; and (ii) the other executives and management (such as chief executive officer, vice chairmen, and deputy chairmen) were granted an average annual emolument ranging from approximately HK\$1,250,000 to approximately HK\$11,380,000. Please see below further details.

	Average annual remuneration to the chairman of the board for the past five years <sup>(1)</sup>	Average annual remuneration to the other executives and management for the past five years <sup>(1)(2)</sup>
Lee & Man Paper Manufacturing Limited (stock code: 2314)	HK\$10,760,000	HK\$11,380,000
Samson Paper Holdings Limited (stock code: 731)	HK\$5,880,000	HK\$5,450,000
Shandong Chenming Paper Holdings Limited (stock code: 1812)	HK\$5,640,000	HK\$3,450,000
Nine Dragons Paper (Holdings) Limited (stock code: 2689)	HK\$8,310,000	HK\$7,780,000
Zhengye International Holdings Company Limited (stock code: 3363)	HK\$2,710,000	HK\$2,300,000
Youyuan International Holdings Limited (stock code: 2268)	HK\$1,550,000	HK\$1,250,000
Hop Fung Group Holdings Limited (stock code: 2320)	HK\$7,600,000	HK\$7,330,000
Come Sure Group (Holdings) Limited (stock code: 794)	HK\$2,420,000	HK\$1,660,000

*Source: annual reports of the Comparables for the past five years*

*Notes:*

- (1) Total remuneration for the past five years/5
- (2) The other executives and management refer to chief executive officer, or vice chairman, or deputy chairman to the extent that their remuneration is publicly available on the annual reports.

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## LETTER FROM THE BOARD

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Among the 16,774,000 Awarded Shares:

- (i) 15,972,000 Awarded Shares will be awarded to two executive Directors, being Mr. Wang Dongxing and Mr. Wang Changhai, and Wang Dongxing is also the chairman of the Board; and
- (ii) 802,000 Awarded Shares will be awarded to one Independent Selected Participant.

The value of the Awarded Shares granted to Mr. Wang Dongxing was calculated with reference to the below:

*the difference between the current annum remuneration of Mr. Wang Dongxing and the average annum remuneration of the chairman in the Comparables for the past five financial years \* 5*

*5 represents five financial years because the Company reviews the market emoluments of the Comparable for the past five financial years*

The value of the Awarded Shares granted to Mr. Wang Changhai was calculated with reference to the below:

*the difference between the current annum remuneration of Mr. Wang Changhai and the average annum remuneration of the directors and senior management with similar role in the Comparables for the past five financial years \* 1.5*

*1.5 represents 1.5 financial years considering Mr. Wang Changhai was promoted to general manager in July 2015*

The value of the Awarded Shares granted to the Independent Selected Participant was calculated with reference to the below:

*the difference between the current annum remuneration of Mr. Liu Wenzheng and the average annum remuneration of the directors and senior management with similar role in the Comparables for the past five financial years \* 3*

*3 represents three financial years considering that Mr. Liu Wenzheng started to take the role of chief financial controller in August 2013*

The Company will submit an application to the Stock Exchange for the listing of, and permission to deal in, the Awarded Shares.

### AWARD TO THE CONNECTED SELECTED PARTICIPANTS

Under the Scheme, Awards may be granted to Eligible Participants who are connected persons (as defined under the Listing Rules) of the Group, subject to compliance with the relevant requirements of the Listing Rules. The grant of an Award under the Scheme to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates shall also be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director to whom the grant

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## LETTER FROM THE BOARD

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of an Award is proposed to be made) at duly convened Board meetings. In addition to prior approval of the independent non-executive Directors, any Awards to connected persons of the Company will be subject to the independent Shareholders' approval in a general meeting as Awards to connected persons of the Company are not exempted under Rule 14A.92 of the Listing Rules.

The Company will ensure such Awards to connected persons of the Company will comply with the requirements under Chapter 14A of the Listing Rules, including but not limited to, disclosures in announcements, circulars and annual reports, and independent Shareholders' approval.

As the executive Directors are connected persons (as defined under the Listing Rules) of the Company, the allotment and issue of the Connected Awarded Shares to the Connected Selected Participants constitute connected transactions the Company under Chapter 14A of the Listing Rules and shall be subject to the approval by the Independent Shareholders at the EGM. The Connected Awarded Shares will be issued under a specific mandate which may be granted by the Independent Shareholders at the EGM.

The Connected Awarded Shares are proposed to be granted to the following connected persons of the Company:

<b>Name of Connected Selected Participant</b>	<b>Relationship with the Company</b>	<b>Number of Connected Awarded Shares</b>
Mr. Wang Dongxing	Executive Director, Chairman	12,762,000
Mr. Wang Changhai	Executive Director	<u>3,210,000</u>
<b>Total:</b>		<u><u>15,972,000</u></u>

Mr. Wang Dongxing, aged 54, who joined the Group in 2000, is an executive Director and the chairman of the Board. Mr. Wang Dongxing was appointed as Director on 22 August 2007. Mr. Wang Dongxing is also a member of the remuneration committee and a member of the nomination committee of the Board. Mr. Wang Dongxing graduated from 山東輕工業學院 (Shandong Institute of Light Industry) with a Bachelor of Engineering degree in 1983 with a major in pulp and paper making. Mr. Wang Dongxing has over 20 years of experience in the paper manufacturing industry. Prior to joining the Group in 2000, Mr. Wang Dongxing had been a senior management in various paper-making related companies with extensive management experience. Mr. Wang Dongxing is responsible for the overall daily operation, strategic planning and management of the Group. Mr. Wang Dongxing also serves as directors for several operating subsidiaries of the Group.

Mr. Wang Changhai, aged 46, has over 15 years of experience in the paper products industry. Mr. Wang Changhai joined the Group in 2001 and was promoted from a manager of the Group to deputy general manager of domestic sales in 2003 and was promoted to the general manager in July 2015. Mr. Wang Changhai was also appointed as an executive Director on 29 February 2016. Mr. Wang Changhai is currently the executive Director and

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## LETTER FROM THE BOARD

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general manager of the Group, who is responsible for the overall operation and management, in addition to the marketing and distribution function which he was mainly responsible for before his promotion. Mr. Wang Changhai also serves as directors for several operating subsidiaries of the Group.

As noted from the above, both Mr. Wang Dongxing and Mr. Wang Changhai are the core senior management of the Group and have served the Group for more than 15 years. Each of them has extensive experience in the paper manufacturing industry which is valuable and essential in the Group's daily operation and would create value and facilitate long-term growth to the Group.

### Historical financial performance of the Group

The net profit/(loss) of the Group for the five financial years ended 31 December 2012, 2013, 2014, 2015 and 2016 are set out below.

	For the financial year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Net profit/(loss)	126,559	56,174	(31,269)	27,520	54,566

*Source:* 2012, 2013, 2014, 2015 and 2016 annual reports of the Group

As shown in the table above, the Group experienced deteriorating operating result for the financial years ended 31 December 2013 and 2014. The net profit of the Group reduced by approximately 49.57% to approximately RMB27.5 million for the financial year ended 31 December 2013, and further decreased to a net loss of approximately RMB31.27 million for the financial year ended 31 December 2014. As disclosed in the Group's annual report for the financial year ended 31 December 2014, such decreases were mainly attributable to (i) sluggish economy of China; and (ii) overall rigorous operating environment due to (a) the intense market competition in the paper manufacturing industry; and (b) the decrease in average selling price of the Group's paper products. There was a notable improvement in the Company's performance since the financial year 2015. The net profit of the Group has experienced a turnaround from a loss position for the financial year ended 31 December 2014 to a net profit of approximately RMB56.17 million for the financial year ended 31 December 2015, and then further increased by approximately 125.30% to approximately RMB126.56 million for the financial year ended 31 December 2016. The turnaround from the loss position of the Group for financial year ended 31 December 2015 was mainly due to the increase in the revenue attributable to the increase in sales volume of the Group's paper products as a result of the product differentiation and value-for-money of the Group's paper products; and the significant improvement in the performance of the Group for the financial year ended 31 December 2016 was mainly due to the increase in the revenue attributable to the (i) increase in sales of paper products during the year as a result of the Group's successful marketing strategies and the promotion of customer-focused products; (ii) the increase in unconditional government subsidy; and (iii) the reduction in finance cost.

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## LETTER FROM THE BOARD

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The Group's revenue and profitability have been improving since the financial year 2015. In particular, the Group's sales in paper products continued to be the primary source of the Group's momentum which was attributable to the Group's business strategies and management. The Board considers that the contributions of the Directors and the management of the Group are crucial to the overall success of the Group.

### Historical emoluments of the Connected Selected Participants

Set out below are total emoluments (which include director fees, salaries and other benefits and performance related incentive payments (if any)) received by each of the Connected Selected Participants in the past five financial years:

Name of the Connected Selected Participant	Position(s) of the Connected Selected Participant	For the financial year ended 31 December				
		2016	2015	2014	2013	2012
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Wang Dongxing	Executive Director and the chairman of the Board in financial years 2012, 2013, 2014, 2015 and 2016	1,631	772	716	729	928
Mr. Wang Changhai	Executive Director and the general manager in the financial year 2016	1,058	450	350	340	390
	General manager in the financial year 2015					
	Deputy general manager in financial years 2012, 2013 and 2014					

*Source:* 2012, 2013, 2014, 2015 and 2016 annual reports of the Group

According to the above table, the total emolument package of Mr. Wang Dongxing decreased from approximately RMB928,000 for the financial year ended 31 December 2012 to approximately RMB729,000, RMB716,000 and RMB772,000 for the three financial years ended 31 December 2013, 2014 and 2015 respectively, whilst there was an increase in the amount of emoluments to approximately RMB1.63 million for the financial year ended 31 December 2016. It is noted from the annual report of the Group that the emoluments of Mr. Wang Dongxing comprise director fee, salary and other benefits and performance related incentive payments which is determined based on the Group's operating results, individual performance and prevailing market conditions.



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## LETTER FROM THE BOARD

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In addition to the above, the total emolument package of Mr. Wang Changhai decreased from approximately RMB390,000 for the financial year ended 31 December 2012 to approximately RMB340,000 and RMB350,000 for the two years ended 31 December 2013 and 2014 respectively. Meanwhile, there were increases in the amount of emoluments to approximately RMB450,000 and RMB1.06 million for the two financial years ended 31 December 2015 and 2016 respectively due to (i) the promotion to general manager of the Group; and (ii) the appointment as an executive Director of the Group.

Each of Mr. Wang Dongxing and Mr. Wang Changhai has abstained from approving the relevant board resolutions on the grant of the relevant Connected Awarded Shares to himself. All the other Directors (excluding the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” of this circular) have approved the grant of the Connected Awarded Shares to the Connected Selected Participants.

### AWARD TO THE INDEPENDENT SELECTED PARTICIPANTS

The Independent Awarded Shares are proposed to be granted to one Independent Selected Participant, being Mr. Liu Wenzheng (劉文政), who is an employee of the Company but not a Director or chief executive of the Group.

Mr. Liu Wenzheng, aged 45, is the deputy general manager of the Group and is responsible for the management of the accounting and finance of the Company's subsidiaries in China. Mr. Liu joined the Group in February 2010. Mr. Liu graduated from Shandong Administration Institute with a Bachelor's degree in accountancy in 1993. Prior to joining the Group, he was the chief financial controller of Shandong Haixin Group. He was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

### Historical emoluments of the Independent Selected Participant

Set out below are total emoluments received by the Independent Selected Participant in the past five financial years:

Name of the Independent Selected Participant	Positions of the Independent Selected Participant	For the financial year ended 31 December				
		2016	2015	2014	2013	2012
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Liu Wenzheng	deputy general manager of the Group	704	411	347	351	266

According to the above table, the total emolument package of Mr. Liu Wenzheng for the financial year ended 31 December 2016 increased as compared to that of the year ended 31 December 2015. Such increase was mainly resulted from that (1) the Group's overall

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## LETTER FROM THE BOARD

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performance improved in the year of 2016 and (2) the remuneration committee commented that the remuneration to the Directors and the senior management were below the market level and not competitive.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Independent Selected Participant is a third party independent of the Company and its connected persons.

The Company will seek a specific mandate at the EGM for the allotment and issue of the Independent Awarded Shares to the Independent Selected Participant.

### CONDITIONS

The issue and allotment of the Connected Awarded Shares to the Connected Selected Participants shall be subject to:

- (i) the grant of the listing approval by the Stock Exchange in respect of the Connected Awarded Shares; and
- (ii) the approval by the Independent Shareholders at the EGM in respect of the specific mandate for the issue and allotment of the Connected Awarded Shares.

The issue and allotment of the Independent Awarded Shares to the Independent Selected Participant shall be subject to:

- (i) the grant of the listing approval by the Stock Exchange in respect of the Independent Awarded Shares; and
- (ii) the approval by the Shareholders at the EGM in respect of the specific mandate for the issue and allotment of the Independent Awarded Shares.

(collectively, the “**Conditions**”)

### FURTHER DETAILS OF THE AWARDED SHARES

Further information in relation to the issue and allotment of the 16,774,000 Awarded Shares to the Selected Participants is set out below:

Securities to be issued:	An aggregate of 16,774,000 new Shares, comprising (i) 15,972,000 Awarded Shares to be issued and allotted to the Connected Selected Participants and (ii) 802,000 Awarded Shares to be issued and allotted to the Independent Selected Participant.
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## LETTER FROM THE BOARD

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Percentage of Awarded Shares in the share capital of the Company:	The aggregate of 16,774,000 new Shares to be issued and allotted by the Company to the Selected Participants represent approximately 2.09% of the issued share capital of the Company as at the date of the grant and approximately 2.05% of the issued share capital of Company as enlarged by the allotment and issue of the Awarded Shares.
Market value of Awarded Shares:	Based on the closing price of HK\$1.9 per Share as quoted on the Stock Exchange as at the date of grant, the market values of 15,972,000 Connected Awarded Shares and 802,000 Independent Awarded Shares are approximately HK\$30,346,800 and HK\$1,523,800, respectively.
Status of Awarded Shares:	The Awarded Shares shall rank <i>pari passu</i> in all respects with fully paid Shares in existence on the date of issue and allotment, which will be the vesting date of the Awarded Shares, or if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, with rights in respect of any Awarded Shares (including any income, dividends, other distributions or voting rights) on or after the date of allotment (i.e. the vesting date).
Funds to be raised:	The Selected Participants are not required to pay any consideration for the grant of Awarded Shares. No fund will be raised by the Company as a result of the issue and allotment of the Awarded Shares. The Awarded Shares will be allotted and issued by the Company on the vesting date at par value.
Market price of the Shares:	The closing price of the Shares on the date of grant is HK\$1.9 per Share. The average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the date of grant is HK\$1.876 per Share.
Vesting:	All Awarded Shares shall vest immediately, subject to satisfaction of the Conditions disclosed above.

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## LETTER FROM THE BOARD

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Lock-up:	Each of the Selected Participants undertakes to the Company in writing that subject to the grant of the Awarded Shares being approved by the Shareholders at the EGM, they shall not sell or dispose of the Awarded Shares within five years after the vesting date. During such lock-up period, the Awarded Shares should not be pledged or assigned to any other third parties. Upon signing, such lock-up confirmation would be legally binding on the Awardee. As the measures, the Company has required Computershare Hong Kong, Investor Services Limited, the Company's share registrar to implement such lock-up arrangement. In other words, the Computershare can only register the dealings of the Awarded Shares by the three Selected Participants upon approval by the Company.
Fund raising activities in the past 12 months:	The Company has not engaged in any fund raising activities in the 12 months immediately preceding the date of this circular.

### REASONS FOR THE AWARD OF THE AWARDED SHARES

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 linerboards, light-coated linerboards, core boards and specialised paper products.

The Scheme forms part of the incentive schemes of the Group. The Board considers that the award of the Awarded Shares to the Selected Participants, which was determined with reference to, among other things, the contribution of the relevant Selected Participants to the Group, recognises the contributions of the Selected Participants and provides incentives for them to strive for the future development and expansion of the Group. It will also allow the Group to encourage the Selected Participants' continuous commitment and support for the Group's development.

The Board has considered various factors, including (i) the importance of roles and responsibilities, (ii) the historical performance and contributions of the Selected Participants to the overall business performance of the Group; (iii) the Selected Participants' expected contributions to the Group from their continuous support; and (iv) their emoluments level in determining the amount of the Awarded Shares to be granted to each Selected Participants and the consideration. In particular, the Board has also made reference to the market emoluments level. The Board noted that the total emoluments of the Selected Participants in the past were significantly lower than those received by executive management level personnel of the other comparable listed companies in Hong Kong engaging in similar business.

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## LETTER FROM THE BOARD

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The Group is mainly engaged in the manufacturing and sales of white top linerboards, light-coated linerboards and core boards. The Board is of the view that (1) manufacturing, research and development, (2) sales and marketing and (3) financing are three key segments to its business.

Both of Mr. Wang Dongxing and Mr. Wang Changhai are founders of the Group and they took an active part in the management and operation of the Group since its establishment.

Since the establishment of the Group, Mr. Wang Dongxing is mainly responsible for manufacturing and research and development of the Group. Given Mr. Wang's expertise and rich experience in paper industry, Mr. Wang Dongxing focused on enhancing the operating efficiencies of the Group by, among others, optimizing and upgrading its production process and equipment to eliminate or minimize impediments to increase production volumes and to enhance production efficiency and product quality, enhancing the Group's process technology and adjusting the ingredient mix of the Group's products, in order to optimize the cost structure, reducing new machine start-up time to achieve design capacity and quality within the shortest possible time, and hiring new research staff to establish a technology center. More importantly, as the chairman of the Board, Mr. Wang Dongxing is responsible for overall strategic planning of the Group which directly affects the position, development and the success of the Group.

Since the establishment of the Group, Mr. Wang Changhai is mainly responsible for marketing and sales of the Group. The Group has established an extensive sales and marketing network in China. The Group co-ordinates its domestic and international sales efforts from its sales headquarter in Weifang. Sales of paper products, which recorded an increase of 14.7%, accounted for substantially all of our Group's total revenue. The Group's successful marketing strategy and customer focused products resulted in the increase in sales volume of its paper products from 1.15 million tons for the financial year of 2015 to 1.27 million tons for the financial year of 2016, and as well as their average selling prices. Since the appointment of Mr. Wang Changhai as the general manager, he is also responsible for daily operation of the Group and implementation of the strategy of the Group.

Since Mr. Liu Wenzheng joined the Group in February 2010, he assisted the Group to lower the financial costs, enhance the working capital efficiency and further balance the liabilities against assets with his knowledge and experience in financing. The Group has gradually reached a more health financial position.

Each of three Selected Participants has leading role in the key segments of the Group's business and they actively cooperated and coordinated with each other, which led to the Group's success. Further details of their respective bios are disclosed under paragraphs headed "Award to the Connected Selected Participants" and "Award to the Independent Selected Participants" of this circular.

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## LETTER FROM THE BOARD

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Notwithstanding that two Connected Selected Participants are also Shareholders of the Company, considering they are one of the founders of the Company and had served the Company for around 15 years, the Board believes that granting of Awarded Shares to them can further simulate their further contributions to the Group.

Furthermore, there will not be any actual cash outflow by the Group for the award of the Awarded Shares to provide incentives to the Selected Participants.

### EGM

A notice convening the EGM to be held at China Sunshine Paper Office Tower, Changle Economic Development Zone, Weifang, Shandong, China on Friday, 29 September 2017 at 10:00 a.m., is set out on pages 44 to 45 of this circular.

Mr. Wang Dongxing and Mr. Wang Changhai, the Connected Selected Participants, are members of the Controlling Shareholders Group who had entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007, 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 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.

As China Sunrise, which is a Shareholder of the Company, 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 and Mr. Wang Changhai, is deemed to be interested in the 321,687,052 Shares held by China Sunrise as at the date of the grant. Further, each of Mr. Wang Dongxing and Mr. Wang Changhai, members of the Controlling Shareholders Group, is interested in 5,663,500 Shares and 630,000 Shares respectively as beneficial owner. Members of the Controlling Shareholders Group are deemed to be interested in such Shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

Accordingly, immediately prior to the date of the grant, each of Mr. Wang Dongxing and Mr. Wang Changhai is interested in 327,980,552 Shares within the meaning of Part XV of the SFO, representing approximately 40.87% of the then issued share capital of the Company.

Therefore, China Sunrise, Mr. Wang Dongxing and Mr. Wang Changhai will be required to abstain from voting on the resolutions in respect of the award of the Connected Awarded Shares to Mr. Wang Dongxing and Mr. Wang Changhai at the EGM.

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## LETTER FROM THE BOARD

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### ACTIONS TO BE TAKEN

A proxy form for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed on such form and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible, but in any event, no later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Such proxy form for use at the EGM is also 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). Completion and return of the proxy form will not preclude you from attending and voting at the EGM in person or any adjourned meeting, as the case may be, should you so desire.

### VOTING BY POLL AT THE EGM

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at a general meeting must be taken by poll except where, the chairman, in good faith decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands. The chairman of the meeting will demand a poll for all resolutions put to the vote at the EGM pursuant to Article 66 of the Articles. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the award of the Connected Awarded Shares to the Connected Selected Participants is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the award of the Independent Awarded Shares to the Independent Selected Participants is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 20 to 21 of this circular, which contains its recommendation to the Independent Shareholders as to the award of the Connected Awarded Shares to the Connected Selected Participants; and (ii) the letter from the Independent Financial Adviser set out on pages 22 to 37 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the award of the Connected Award Shares to the Connected Selected Participants and reasons considered by it in arriving at its opinion.

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## LETTER FROM THE BOARD

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### GENERAL

In case of any discrepancies between the Chinese and English versions of this circular, the English version shall prevail.

Yours faithfully,  
For and on behalf 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)**

*To the Independent Shareholders*

**CONNECTED TRANSACTIONS IN RELATION TO  
THE PROPOSED ISSUE OF NEW SHARES  
UNDER THE SHARE AWARD SCHEME TO CONNECTED PERSONS  
PURSUANT TO SPECIFIC MANDATE**

1 September 2017

Dear Sir or Madam,

We refer to the circular of the Company dated 1 September 2017 (the “Circular”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Connected Awarded Shares are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and whether the terms of the Connected Awarded Shares are in the ordinary and usual course of business of the Group and in the interests of the listed issuer and its shareholders as a whole. Shinco Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of Connected Awarded Shares to Connected Selected Participants.

Your attention is drawn to the “Letter from the Board” set out on pages 5 to 19 of the Circular which contains, *inter alia*, information about the terms of the Connected Awarded Shares and the “Letter from Shinco Capital” set out on pages 22 to 37 of the Circular which contains its advice in respect of the Connected Awarded Shares together with the principal factors taken into consideration in arriving at such.

We have considered the principal factors taken into account by the Independent Financial Adviser in arriving at its opinion in respect of the award of the Connected Award Shares to the Connected Selected Participants. We concur with the views of the Independent Financial Adviser that the award of the Connected Awarded Shares to the Connected

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Selected Participants is fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions in respect of the award of the Connected Awarded Shares to the Connected Selected Participants.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee of  
**China Sunshine Paper Holdings Limited**

**Ms. Shan Xueyan**  
*Independent non-executive  
Director*

**Mr. Wang Zefeng**  
*Independent non-executive  
Director*

**Ms. Jiao Jie**  
*Independent non-executive  
Director*



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## LETTER FROM SHINCO CAPITAL

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*The following is the text of a letter of advice from Shinco Capital Limited, the independent financial adviser to the Independent Board Committee and Independent Shareholders, for the purpose of incorporation into this circular.*



Room 1106, 11/F  
Office Plus@Sheung Wan  
No. 93-103 Wing Lok Street  
Sheung Wan  
Hong Kong

1 September 2017

*To the Independent Board Committee and the Independent Shareholders of  
China Sunshine Paper Holdings Company Limited (the “Company”)*

Dear Sir or Madam,

### **CONNECTED TRANSACTIONS PROPOSED ISSUE OF NEW SHARES UNDER THE SHARE AWARD SCHEME TO CONNECTED PERSONS PURSUANT TO SPECIFIC MANDATE**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the connected transactions in relation to the proposed issue of new Shares under the share award scheme to connected persons pursuant to specific mandate, details of which are set out in the circular of the Company dated 1 September 2017 (the “**Circular**”) of which this letter (the “**Letter**”) forms part. Capitalised terms used in this Letter shall have the same meanings as defined in the Circular, unless the context requires otherwise.

The Board approved the adoption of the Scheme on 27 June 2017. On 21 July 2017, the Board resolved to, subject to the approval of the Shareholders, grant a total of 16,774,000 Awarded Shares to three Selected Participants under the Scheme by way of allotment and issue of new Shares pursuant to the specific mandate at par value, of which 15,972,000 Connected Awarded Shares will be conditionally granted to two executive Directors, being Mr. Wang Dongxing and Mr. Wang Changhai. The Connected Selected Participants, as executive Directors, are connected persons of the Company under the Listing Rules. The grant of the Connected Awarded Shares constitutes connected transactions for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders’ approval requirements.

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## LETTER FROM SHINCO CAPITAL

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As at the Latest Practicable Date, each of Mr. Wang Dongxing and Mr. Wang Changhai, (i) is interested in 5,663,500 Shares and 630,000 Shares respectively as beneficial owners and (ii) is a member of the Controlling Shareholders Group interested in China Sunrise which in turn is interested in 321,687,052 Shares. Accordingly, each of Mr. Wang Dongxing and Mr. Wang Changhai is deemed to be interested in 327,980,552 Shares within the meaning of Part XV of SFO, representing approximately 40.87% of the issued share capital of the Company. China Sunrise, Mr. Wang Dongxing and Mr. Wang Changhai will be required to abstain from voting on the resolutions in respect of the grant of the Connected Awarded Shares to Mr. Wang Dongxing and Mr. Wang Changhai at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie, has been established to give advice and recommendation to the Independent Shareholders in respect of the grant of the Connected Awarded Shares to the Connected Selected Participants.

We, Shinco Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the grant of the Connected Awarded Shares is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the grant of Connected Awarded Shares is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the grant of the Connected Awarded Shares and the transactions contemplated thereunder at the EGM.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied upon the information, facts and representations contained in the Circular, the opinions expressed by the management of the Company to us and our review of the relevant public information. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate as at the Latest Practicable Date and can be relied upon. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

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## LETTER FROM SHINCO CAPITAL

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, 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 in the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this Letter of advice.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Connected Selected Participants and their respective associates.

As at the Latest Practicable Date, we are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, 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 therefore is considered suitable as defined under Rule 13.84 of the Listing Rules to give independent advice to the Independent Board Committee and the Independent Shareholders.

Save for this appointment as independent financial adviser in respect of the grant of the Connected Awarded Shares, there were no other engagements between Shinco Capital Limited and the Company, or the Connected Selected Participants, in the last two years prior to the date of the Circular. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees or benefit from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or the Connected Selected Participants. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we consider that we are eligible to give independent advice on the grant of the Connected Awarded Shares.

## **PRINCIPAL FACTORS CONSIDERED**

In formulating our opinion on the grant of the Connected Awarded Shares, we have taken into consideration the following principal factors:

### **1. Information on the Group**

#### ***Principal business of the Group***

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

#### ***Historical financial performance of the Group***

Selected information of the Group's consolidated financial results for the five financial years ended 31 December 2012, 2013, 2014, 2015 and 2016 (as extracted from the annual reports of the Group) are set out below.

**Table 1:**

	<b>For the financial year ended 31 December</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Revenue	4,223,298	3,725,808	3,447,617	3,657,671	3,704,180
Gross profit	826,970	745,776	656,049	603,483	615,328
Profit/(loss) before income tax	185,315	70,798	(16,921)	38,945	71,495
Net profit/(loss)	126,559	56,174	(31,269)	27,520	54,566
Profit/(loss) attributable to owners of the Company	123,111	51,258	(37,966)	22,055	43,983
Net profit margin ( <i>Note</i> )	3.00%	1.51%	Not applicable	0.75%	1.47%

*Note:* The net profit margin is calculated by dividing the net profit by revenue.

As set out in the Letter from the Board, the Group's revenue and profitability have been improving since the financial year 2015 and the Group's sales in paper products continued to be the primary source of the Group's momentum which was attributable to the Group's business strategies and management. The Board considers that the contributions of the Directors and the management of the Group are crucial to the success of the Group.

**2. The background of the Scheme and the grant of the Awarded Shares**

The Scheme was adopted on 27 June 2017 with the purposes to recognise the contributions of certain Directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company. The Board may from time to time at its absolute discretion select any Eligible Participants for participation in the Scheme.

As set out in the Letter from the Board, in determining the number of Awarded Shares, the Board may take into consideration matters including but not limited to the present contribution and expected contribution of the Selected Participant to the profits of the Group, the general financial condition of the Group and the Group's overall business objectives and future development plan. When the Board considers the awardees and the number of Awarded Shares to be granted, the following benchmarks will be taken into account:

- (i) the number of years that the Eligible Participant(s) has worked with the Group, which shall generally be not less than five years;
- (ii) the role and responsibilities of the Eligible Participant(s) and the Board will pay more emphasis on their senior management role in subsidiary level or the Company's level;
- (iii) the specific expertise of the Eligible Participant(s), such as paper industry, financial, corporate governance, etc.;
- (iv) the performance of the Eligible Participant(s) in terms of research and development, market expansion, costs reduction, etc.; or
- (v) the remuneration of the executive management level personnel of the Group compared against other comparable listed companies in Hong Kong engaging in similar business.

We had enquired and understand from the Company that the Selected Participants have served the Group for far more than 5 years and are Eligible Participants as defined in the Scheme and fulfilled all of the above selection criteria. Each of the three Selected Participants has the leading role in the three key segments of the Group's business (i.e. (i) manufacturing, research and development, (ii) sales and marketing and (iii) financing) and they actively cooperated and coordinated with each other, which led to the Group's success. Therefore, we consider that the selection of awardees and the grant of the Awarded Shares are in line with the aforesaid purposes of the Scheme.

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## LETTER FROM SHINCO CAPITAL

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The total number of the issued Shares as at the adoption date of the Scheme were 802,588,000 Shares, and the total number of the Awarded Shares amounted to 16,774,000 Shares, representing approximately 2.09% of total issued Shares and is within the 10% Scheme limit. It is also provided in the Scheme that unless approved by the Shareholders in a general meeting, the maximum number of Awarded Shares which may be subject to Award(s) made to a single Selected Participant in any 12-month period shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date. It is noted that the number of Awarded Shares granted to Mr. Wang Dongxing represents approximately 1.59% of the issued Shares of the Company on the adoption date, such grant is to be subject to the approval by the Independent Shareholders in accordance with the Scheme.

### **3. Background of the Connected Selected Participants**

Mr. Wang Dongxing and Mr. Wang Changhai are the two of the Selected Participants under the Scheme.

Both of them are the core senior management of the Group and have served the Group for more than 15 years. Each of them has extensive experience in the paper manufacturing industry which is valuable and essential in the Group's daily operation and would create value and facilitate long-term growth to the Group. For more details of the biography, responsibilities, contribution and the historical emoluments of Mr. Wang Dongxing and Mr. Wang Changhai, please refer to sections headed "AWARD TO THE CONNECTED SELECTED PARTICIPANTS" and "REASONS FOR THE AWARD OF THE AWARDED SHARES" in the Letter from the Board.

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## LETTER FROM SHINCO CAPITAL

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### *Value of the Connected Awarded Shares under the grant*

Table 2 below summaries the information about the Connected Selected Participants and the number of the Connected Awarded Shares to be granted to each of the Connected Selected Participants:

**Table 2:**

Name of the Connected Selected Participant	Relationship with the Group	Number of the Connected Awarded Shares awarded	Market value of the Connected Awarded Shares <i>Approx. HK\$ million (Note)</i>	Percentage to the total existing issued Shares
Mr. Wang Dongxing	Executive Director, the chairman of the Board, and member of the Controlling Shareholders Group	12,762,000	24.25	1.59%
Mr. Wang Changhai	Executive Director and member of the Controlling Shareholders Group	3,210,000	6.10	0.40%
<b>Total:</b>		<b>15,972,000</b>	<b>30.35</b>	<b>1.99%</b>

*Note:* The market values of the Connected Awarded Shares are calculated based on the closing market price per Share of HK\$1.9 as at 21 July 2017, the date the Board resolved to conditionally grant the Connected Awarded Shares.

As shown in Table 2, based on the closing market price of HK\$1.9 per Share as quoted on the Stock Exchange as at 21 July 2017, the date the Board resolved to conditionally grant the Connected Awarded Shares, the aggregate market value of the Connected Awarded Shares is approximately HK\$30.35 million. No fund will be raised or utilized by the Company as a result of the allotment and issue of the Connected Awarded Shares.

As set out in the Letter from the Board, the Board has considered various factors, including (i) the importance of roles and responsibilities of the respective Connected Selected Participants; (ii) the historical performance and contributions of the respective Connected Selected Participants to the overall business performance of the Group; (iii) the Connected Selected Participants' expected contributions to the Group from their continuous support; and (iv) their emoluments level in determining the amount of the Connected Awarded Shares to be granted to each Connected Selected Participants. In particular, the Board has also made reference to the market emoluments level in determining the



number of the Connected Awarded Shares to be granted. As set out in the Letter from the Board, the Company has made reference to the remuneration level of 8 Comparable listed companies in Hong Kong engaging in paper manufacturing and trading business in the past 5 financial years, and the Company noted that the total emoluments of the Connected Selected Participants in the past were significantly lower than the market level of emoluments.

The value of the Connected Awarded Shares granted to Mr. Wang Dongxing was calculated with reference to the difference between the current annum remuneration of Mr. Wang Dongxing and the average annum remuneration of the chairmen of the 8 Comparables for the past 5 financial years times 5 (where 5 represents five financial years because the Company reviews the market emoluments of the eight Comparable for the past 5 financial years).

The value of the Connected Awarded Shares granted to Mr. Wang Changhai was calculated with reference to the difference between the current annum remuneration of Mr. Wang Changhai and the average annum remuneration of the directors and senior management with similar role in the 8 Comparables for the past 5 financial years times 1.5 (where 1.5 represents 1.5 financial years considering Mr. Wang Changhai was promoted to general manager in July 2015).

We have discussed and reviewed the data collection and calculation made by the Company in determining the number of the Awarded Shares. We are of the view that the data have been properly extracted and are accurate in material aspects with reference to the recent price performance of the Shares. In addition, we conducted a further analysis on the listed companies in Hong Kong principally engaged in paper manufacturing and trading business, in which we sorted out those with revenue ranging from RMB1 billion to RMB10 billion for the latest financial year, which are more comparable to the operating scale of the Company (i.e. whose revenue was approximately RMB4.22 billion for the latest financial year). Accordingly, 4 listed companies in Hong Kong, namely Zhengye International Holdings Co. Limited (3363.HK), Samson Paper Holdings Limited (731.HK), Youyuan International Holdings Limited (2268.HK) and Hop Fung Group Holdings Limited (2320.HK) (the “**Sorted Comparables**”), are selected for our analysis.

We have further enquired with the Company on the roles, responsibilities and length of service of each of the Connected Selected Participants. In particular, we understand from the Company that, while the Group has no chief executive officer, Mr. Wang Changhai, who is entitled as an executive Director and the general manager of the Group, has been taking up the roles, functions and responsibilities equivalent to a chief executive officer since 2015. Therefore we use the remuneration of the chief executive officers of the Sorted Comparables for our reference, which we consider more appropriate for analysis.



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## LETTER FROM SHINCO CAPITAL

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Our findings of historical remuneration levels of different senior management of the Sorted Comparables for the latest past 5 financial years are as follows:

**Table 3:**

Name of Sorted Comparables (stock code)	Five-year average annual remuneration of	
	Chairmen	Chief executive officers
	<i>RMB million</i> (Approx.)	<i>RMB million</i> (Approx.)
Samson Paper Holdings Limited (731.HK)	5.00	5.08
Youyuan International Holdings Limited (2268.HK)	1.31	1.07
Hop Fung Group Holdings Limited (2320.HK) ( <i>note</i> )	4.19	3.96
Zhengye International Holdings Co. Limited (3363.HK)	2.31	2.04
<b>Highest:</b>	<b>5.00</b>	<b>5.08</b>
<b>Lowest:</b>	<b>1.32</b>	<b>1.07</b>
<b>Average:</b>	<b>3.20</b>	<b>3.04</b>

*Source: annual reports of the Sorted Comparables for the past five financial years*

*Note:*

*In calculating the annual remuneration package, the remuneration of Hop Fung Group Holdings Limited (2320.HK) for the financial year ended 31 December 2014 has been adjusted by excluding the exceptionally high bonus to the senior management which may be due to the substantial gain from the disposal of subsidiary during the financial year.*

### ***Analysis for the remuneration package of Mr. Wang Dongxing***

As shown in Table 3, the remuneration level of the chairmen of the Sorted Comparables ranges from approximately RMB1.32 million to RMB5.0 million, with an average of approximately RMB3.2 million (the “**Chairmen Range**”).

Mr. Wang Dongxing has been an executive Director and the chairman of the Company since the listing in 2007. The total remuneration level of Mr. Wang Dongxing in the past 5 years amounted to approximately RMB4.78 million, with an average of approximately RMB0.96 million per annum only which was remarkably lower than the level of the Chairmen Range. If the grant of the Connected Awarded Shares to Mr. Wang Dongxing (with the market value of approximately RMB20.62 million (approximately HK\$24.25 million)) is taken into account, the average annual remuneration of Mr. Wang Dongxing in the past

5 years will be amounted to approximately RMB5.08 million per annum (i.e. calculated by (RMB4.78 million + RMB20.62 million)/(5 years)), which is slightly outside the Chairmen Range.

***Analysis for the remuneration package of Mr. Wang Changhai***

As shown in Table 3, the remuneration level of chief executive officers of the Sorted Comparables ranges from approximately RMB1.07 million to RMB5.08 million, with an average of approximately RMB3.04 million (the “**CEO Range**”).

The total remuneration level of Mr. Wang Dongxing for half of the year 2015 and full amount for the year 2016 amounted to approximately RMB1.29 million, with an average of approximately RMB0.86 million per annum which was remarkably lower than the level of the CEO Range. If the grant of the Connected Awarded Shares to Mr. Wang Changhai (with the market value of approximately RMB5.19 million (approximately HK\$6.10 million)) is taken into account, the average remuneration of Mr. Wang Changhai in the past 1.5 years will be amounted to approximately RMB4.32 million per annum (i.e. calculated by (RMB1.29 million + RMB5.19 million)/(1.5 years)), which is within the CEO Range and higher than the average of the CEO Range.

Taking into account (i) the remuneration level of the chairmen and chief executive officers of the Sorted Comparables; (ii) the historical remunerations of the Connected Selected Participants as set out in the Letter from the Board; (iii) the roles, responsibilities and length of service of the Connected Selected Participants in the Group; (iv) the grant of the Connected Awarded Shares is indeed a delayed recognition of the Connected Selected Participants’ previous contributions to the Group and they are subject to a five-year-lock-up period after the vesting date, though they shall vest immediately; and (v) the value of the Connected Awarded Shares granted to the Connected Selected Participants, we considered that the grant of the Connected Awarded Shares to the Connected Selected Participants is fair and reasonable.

**4. Reasons for and benefits of the grant of the Connected Awarded Shares**

As set out in the Letter from the Board in the Circular, the Scheme forms part of the incentive schemes of the Group. The Board considers that the grant of the Connected Awarded Shares to the Connected Selected Participants, which was determined with reference to, among other things, the contributions of the Connected Selected Participants to the Group, recognises the contributions of the Connected Selected Participants and provides incentives for them to strive for the future development and expansion of the Group. It will also allow the Group to encourage the Connected Selected Participants’ continuous commitment and support for the Group’s development. Furthermore, there will not be any actual cash outflow by the Group for the grant of the Connected Awarded Shares to provide incentives to the Connected Selected Participants.

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## LETTER FROM SHINCO CAPITAL

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We understand from the Company that the grant of the Connected Awarded Shares to the Connected Selected Participants has been reviewed and approved by the remuneration committee of the Company under which Mr. Wang Dongxing, being one of the remuneration committee members, has abstained from the resolution in considering the grant of the Connected Awarded Shares to himself. We also understand from the Company that both Mr. Wang Dongxing and Mr. Wang Changhai have abstained from approving the relevant board resolutions on the grant of the relevant Connected Awarded Shares to themselves.

As set out in sections headed “Background of the Connected Selected Participants” and “Historical financial performance of the Group”, each of the Connected Selected Participants (i) has professional knowledge and extensive working experience in paper manufacturing industry; (ii) has served the Group for more than 15 years; and (iii) has been playing a significant role in supporting and/or leading the Group for achieving a higher performance level, in particular a significant improvement in the Group’s financial results for the recent financial years contributed by the successful marketing strategies and customer-focused products. The Board is of the view, and we concur, that the grant of the Connected Awarded Shares enables the Group to encourage the Connected Selected Participants’ further contributions for the Group’s development.

As at the Latest Practicable Date, each of Mr. Wang Dongxing and Mr. Wang Changhai is interested in 5,663,500 Shares and 630,000 Shares respectively as beneficial owners and they are members of the Controlling Shareholders which in turn is interested in 321,687,052 Shares. The grant of the Connected Awarded Shares to the Connected Selected Participants will further increase their equity interests in the Company. As set out in the Letter from the Board, notwithstanding that two Connected Selected Participants are also Shareholders of the Company, considering they are one of the founders of the Company and had served the Company for more than 15 years, the Board believes that the grant of Connected Awarded Shares to them can further stimulate their contributions to the Group. We are of the view that this is in the interests of the Company and its Shareholders as a whole as it would more align their interests as key management members of the Group with the Shareholders, which is beneficial to the long-term development of the Group.

Furthermore, we have enquired and understand from the Company that it had considered different incentive schemes to staff members of the Group, including cash bonuses, remuneration increment, grant of share options and the Scheme. After considering various alternatives in a careful manner, the Directors considered the grant of the Connected Awarded Shares would be appropriate as it enables the Company to recognise the historical performance and contributions of the Connected Selected Participants to the Group and provide incentives to the Connected Selected Participants to strive for the growth of the Group consistently without any cash outflow by the Group.

Having considered (i) as compared to cash bonuses, the Scheme will not incur any outflow of cash from the Group and will not impose pressure on the Group's cash flow position; (ii) the grant of share options is a less effective incentive scheme in serving the Company's aim of rewarding and recognising the historical performance and contribution of the awardees as share options would be granted at an exercise price higher than the then market value of the shares (out of the money), which would have no intrinsic value unless the share price rises and is higher than the exercise price of the share options (in-the-money), and the awardees are required to pay the exercise price upon exercise of the share options; (iii) it is not an uncommon market practice for listed companies in Hong Kong to adopt share award scheme and grant award shares to their key personnel; and (iv) the grant of the Connected Awarded Shares is the immediate recognition and rewards to the historical performance and long-term contributions of the Connected Selected Participants and shall effectively help motivate the Connected Selected Participants as well as the other staff of the Group to devote their efforts and make contributions to the Group persistently for betterment of the Group's development, we consider that the grant of the Connected Awarded Shares is in the interests of the Company and its Shareholders as a whole.

#### **5. Principal terms of the grant of the Connected Awarded Shares**

##### ***Conditions of the grant of the Connected Awarded Shares***

The issue and allotment of the Connected Awarded Shares to the Connected Selected Participants shall be subject to:

- (i) the grant of the listing approval by the Stock Exchange in respect of the Connected Awarded Shares; and
- (ii) the approval by the Independent Shareholders at the EGM in respect of the specific mandate for the issue and allotment of the Connected Awarded Shares.

##### ***Vesting conditions of the Connected Awarded Shares***

The Connected Awarded Shares shall vest immediately, subject to satisfaction of the Conditions above.

In order to assess vesting conditions of the Connected Awarded Shares, we have made reference to the recent grant of award shares as part of the incentive schemes by other listed companies in Hong Kong, based on the information available from the Stock Exchange's website.

We have, to our best knowledge, identified 23 comparable companies which had announced the grant of award shares to their respective employees and/or directors during the past three-month period immediately before the grant of the Awarded Shares by the Company (i.e. period from 21 April 2017 to 21 July 2017) with their terms as set out in Table 4 below. We consider that the length of the

## LETTER FROM SHINCO CAPITAL

aforesaid period is a time span for our analysis which covers sufficient number of comparable companies to reflect the current practice in the market in respect of the allotment of award shares.

**Table 4:**

Company name (stock code)	Date of announcement	Awardee(s)	Connected person involved	Percentage of total number of award shares to the total issued share capital on the date of the grant (Approx.)	Any performance targets	Vesting date/period	Vesting period (no. of months) (Approx.)
1. Ozner Water International Holding Ltd. (2014)	21 July 2017	215 awardees, including 4 connected persons	Yes	0.55%	Not mentioned	40% on 1st year; 30% on 2nd year; 30% on 3rd year	12 to 36
2. E-Commodities Holdings Ltd. (1733)	20 July 2017	5 awardees, including 4 connected persons	Yes	0.795%	Not mentioned	on 21 January 2018	6
3. HKBN Ltd. (1310)	20 July 2017	10 awardees, with no connected persons	No	0.025%	Not mentioned	25% on 1st year; 25% on 2nd year; 50% on 3rd year	12–36
4. Tianli Holdings Group Ltd. (117)	14 July 2017	3 awardees, who are connected persons	Yes	2.40%	Not mentioned	in 3 equal portions vest on 31 March 2018, 2019 and 2020	8.5–32.5
5. Link Real Estate Investment Trust (823)	14 July 2017	a group of awardees, including 12 connected persons of Link Asset Management Limited	Yes	0.09%	May subject to performance target	50% from 14 July 2017 to 30 June 2019; 50% from 14 July 2017 to 30 June 2020	0–35.5
6. China Mengniu Dairy Co. Ltd. (2319)	13 July 2017	a group of awardees, including 2 connected persons	Yes	0.18%	Yes	2 equal portions vest in 2 years	12–24
7. Li & Fung Ltd. (494)	13 July 2017	815 awardees, including 15 connected persons	Yes	0.83%	Not mentioned	0.05%: 3 equal portions vest on 31 December 2017, 2018 and 2019 99.95%: 3 equal portions vest on 31 December 2018, 2019 and 2020	5.5–41.5
8. Tencent Holdings Ltd. (700)	10 July 2017	10,800 awardees, with no connected persons	No	0.19%	Not mentioned	vesting period of the award shares differs among the awardees	no available information
9. Health and Happiness (H&H) International Holdings Ltd. (1112)	7 July 2017	2 awardees, with no connected persons	No	0.01%	Not mentioned	on 1 April 2018	9
10. Zhong Ao Home Group Ltd. (1538)	6 July 2017	20 awardees, all are independent third parties	No	1.06%	No	vest immediately	0  subject to lock-up (10% within 3 months; 30% within 9 months; 60% within 15 months)

## LETTER FROM SHINCO CAPITAL

					Percentage of total number of award shares to the total issued share capital on the date of the grant (Approx.)	Any performance targets		Vesting period (no. of months) (Approx.)
	Company name (stock code)	Date of announcement	Awardee(s)	Connected person involved			Vesting date/period	
11.	IGG Inc (799)	27 June 2017	a group of awardees, none of them are connected persons	No	0.04%	Not mentioned	4 equal portions vest in 4 years	12–48
12.	Elife Holdings Ltd. (223)	27 June 2017	18 awardees, including 14 connected persons	Yes	5.10%	Not mentioned	vest immediately	0
13.	Ju Teng International Holdings Limited (3336)	16 June 2017	4 awardees, who are connected persons	Yes	0.60%	Not mentioned	on 3 July 2017	< 1
14.	PuraPharm Corporation Limited (1498)	16 June 2017	18 awardees, including 9 connected persons	Yes	0.83%	Not mentioned	30% on 16 June 2018; 20% on 16 June 2019; 20% on 16 June 2020; 20% on 16 June 2021; 10% on 16 June 2022	12–60
15.	Alibaba Health Information Technology Limited (241)	14 June 2017	160 awardees, including 10 connected persons	Yes	0.41%	No	within 4 years	< 48
16.	First Pacific Company Limited (142)	7 June 2017	1 awardee, not a connected person	No	0.003%	Not mentioned	with vesting period but not mentioned	no available information
17.	Kaisun Energy Group Limited (8203)	2 June 2017	17 awardees, with no connected persons	No	2.00%	Not mentioned	on or before 26 June 2017	< 1
18.	Clear Media Limited (100)	31 May 2017	3 awardees, who are connected persons	Yes	0.20%	Yes	exact vesting is not mentioned, but the vesting are subject to performance targets of the group for the years ended 31 December 2017, 2018 and 2019	estimated 6–30
19.	Semiconductor Manufacturing International Corporation (981)	22 May 2017	1 awardee, who is a former chief executive officer of the company and a non-executive director	Yes	0.02%	Not mentioned	on 30 June 2017 (being the date on which the awardee will complete his term as an advisor to the company)	1.5
20.	AGTech Holdings Limited (8279)	15 May 2017	129 awardees, including 6 connected persons	Yes	0.90%	No	from August 2017 to May 2021 in several stages	3–48
21.	Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (520)	8 May 2017	22 awardees, including 2 connected persons	Yes	0.37%	Yes	4 equal portions vest on 1 April 2019, 2020 2021 and 2022	23–59
22.	Hengdeli Holdings Limited (3389)	5 May 2017	11 awardees, including 2 connected persons	Yes	0.12%	Not mentioned	on 12 May 2017	< 1
23.	Fosun International Limited (656)	4 May 2017	65 awardees, including 15 connected persons	Yes	0.05%	Yes	3 equal portions vest on 3 May 2018, 2019, and 2020	12–36

*Source: the website of the Stock Exchange*

We note from the above Table 4 that (i) the vesting periods of other share awards range from immediate vesting to up to five years; and (ii) even some award shares as shown in Table 4 are granted with vesting period, they vest very shortly (i.e. within one month) after grant, therefore the immediate vesting of the Group's grant of Awarded Shares accords to the normal market practice. Furthermore, under the grant, all the Awarded Shares are subject to a lock-up period of five years after the vesting date, during which each of the Selected Participants shall not sell or dispose of any Awarded Shares. We are of the view that such lock-up undertakings can effectively align personal interests of the Selected Participants with the Shareholders to foster the long-term development of the Group as the final realisable value of the Awarded Shares are directly dependent on the future price performance of the Shares. Therefore, it helps encourage the continual contributions of the Selected Participants to strive for better business performance so that they can maintain the current value of the Awarded Shares or even obtain more gain from any appreciation in Share price after the lock-up period, which is in line with the interest of the Shareholders in seeking capital appreciation of the Shares.

We have enquired and confirmed with the Company that there is no difference on the vesting conditions and the lock-up arrangements of the grant of the Awarded Shares to the Connected Selected Participants and the Independent Selected Participant.

Having considered the above, we concur with the Director's view that vesting conditions of the grant of the Connected Awarded Shares and the provision of lock-up period are fair and reasonable, and are in the interests of the Company and Shareholders as a whole.

#### **6. Financial effects of the grant of the Connected Awarded Shares**

Under the accounting policies of the Company, the value of the Connected Awarded Shares would be allocated and charged as expenses of the Group for the relevant financial year during the vesting period. As the Connected Awarded Shares vest immediately, the full amount is expected to be recognized during the financial year ending 31 December 2017. No fund will be raised or utilised as a result of the grant of the Connected Awarded Shares to the Connected Selected Participants, save for the expenses relating to the publication of announcement and circular, holding of the EGM and the printing cost for the allotment and issue of the Awarded Shares.

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

The 15,972,000 Connected Awarded Shares to be granted represent (i) approximately 1.99% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 1.95% of the issued share capital of the Company as enlarged by the issue of the 15,972,000 Connected Awarded Shares; and (iii) approximately 1.95% of the issued share capital of the Company as enlarged by the issue of all the 16,774,000 Awarded Shares.



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## LETTER FROM SHINCO CAPITAL

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Upon the allotment and issue of all the Awarded Shares, the shareholding of the existing public Shareholders of 354,247,600 Shares will be diluted from approximately 44.14% to approximately 43.23% (excluding the 802,000 Independent Awarded Shares granted to the Independent Selected Participant for illustration purpose).

Having considered the benefit of the grant of the Connected Awarded Shares in motivating the Connected Selected Participants as elaborated above, we consider that the dilution effects on the shareholding of the existing public Shareholders upon allotment and issue of the Connected Awarded Shares under the Scheme is acceptable and fair and reasonable.

### RECOMMENDATIONS

Having considered (i) the benefits of the grant of the Connected Awarded Shares in recognising the historical performance of the Connected Selected Participants (being key management) and motivating their continual commitment and support for the Group's development; (ii) the number of the Connected Awarded Shares to be granted to the Connected Selected Participants were determined based on, amongst others, the important roles and responsibilities as well as the historical performance and contributions of the Connected Selected Participants and market comparables; (iii) the important roles and responsibilities of the Connected Selected Participants and their extensive experience in the paper manufacturing industry are valuable and essential to the Group's daily operation and would create value and long-term growth to the Group; and (iv) the grant of the Connected Awarded Shares to the Connected Selected Participants represents an immediate action of the Group in adjusting their historical emoluments to meet up with the market level to retain the Connected Selected Participants, we are of the view that the terms of the grant of the Connected Awarded Shares are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the grant of the Connected Awarded Shares is conducted under the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the grant of the Connected Awarded Shares and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Shinco Capital Limited**  
**Bobby Chow**                      **Teresa Tsang**  
*Managing Director*                      *Director*

*Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.*

*Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.*



## 1. DISCLOSURE OF INTERESTS

## (a) Interests and short positions of the Directors and the chief executives in the share capital and associated corporations of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be 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 (the “Model Code”), will be as follows:

Name of Director	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	321,687,052	40.08%
	Beneficial owner <sup>(2)</sup>	18,425,500	2.30%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(3)</sup>	3,840,000	0.48%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	321,687,052	40.08%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(3)</sup>	6,293,500	0.78%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	321,687,052	40.08%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(3)</sup>	6,293,500	0.78%
Mr. Wang Changhai	Interest of a party to an agreement to acquire interests in our Company <sup>(1)</sup>	321,687,052	40.08%
	Beneficial owner <sup>(2)</sup>	3,840,000	0.48%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(3)</sup>	18,425,000	2.30%

Notes:

1. The Controlling Shareholders Group entered into 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 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 Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai, is deemed to be interested in the 321,687,052 Shares held by China Sunrise.

2. On 21 July 2017, the Company granted 12,762,000 Awarded Shares to Mr. Wang Dongxing and 3,210,000 Awarded Shares to Mr. Wang Changhai.
3. Under section 318 of the SFO, Mr. Shi Weixin and Mr. Zhang Zengguo, as parties to the Concert Parties Agreement, are deemed to be interested in the 6,293,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai; Mr. Wang Dongxing is deemed to be interested in the 630,000 Shares held by Mr. Wang Changhai; and Mr. Wang Changhai is deemed to be interested in the 5,663,500 Shares held by Mr. Wang Dongxing.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or any of their spouses or children under the age of 18 was interested, or was deemed to be interested in the long and short positions in the Shares, underlying Shares and debentures of the Company or any of its holding company, subsidiaries or other associated corporation (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange. At no time had the Company or any of its holding company or subsidiaries been participated in any arrangements to enable the Directors or chief executive (including their spouses or children under the age of eighteen) of the Company to acquire any interests and short positions of Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

**(b) Interests and short positions of substantial Shareholders and other parties in the Shares and underlying Shares of the Company**

As at the Latest Practicable Date, other than the interests and short positions of certain directors and chief executives as disclosed under the paragraph above, the interests and short positions of persons in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under section 336 of the SFO were as follows:

Name	Long position/ short position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	321,687,052	40.08%
China Sunshine <sup>(1)</sup>	Long	Interest of a controlled corporation	321,687,052	40.08%
Controlling Shareholders Group <sup>(2)</sup>	Long	Interest of a party to an agreement to acquire interest in our Company	321,687,052	40.08%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	22,265,500	2.77%
Prudence Investment Management (Hong Kong) Limited	Long	Investment Manager	120,359,848	15.00%

*Notes:*

1. As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 321,687,052 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 321,687,052 Shares held by China Sunrise. Further, Mr. Wang Dongxing is interested in 5,663,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 630,000 Shares as beneficial owner. On 21 July 2017, the Company granted 12,762,000 Awarded Shares to Mr. Wang Dongxing and 3,210,000 Awarded Shares to Mr. Wang Changhai. Other members of the

Controlling Shareholders Group, being member of the Concert Parties Agreement, are deemed to be interested in such shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

## 2. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## 3. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualifications of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
Shinco Capital Limited	a corporation licensed under SFO to conduct Type 6 (advising on corporate finance) regulated activity, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders

Shinco Capital 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.

The letter and recommendation given by Shinco Capital is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Shinco Capital does not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

As at the Latest Practicable Date, Shinco Capital did not have any interest, direct or indirect, in any assets since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up, have been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up.

**5. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

**6. INTEREST OF DIRECTORS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up. As at the Latest Practicable Date, there is no other contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at Rooms 801 & 803, 8/F., Beverly House, 93–107 Lockhart Road, Wanchai, Hong Kong from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 20 and 21 of this circular;
- (b) the letter from Shinco Capital, the text of which is set out on pages 22 to 37 of this circular;
- (c) the written consent from the expert referred to in paragraph headed “Expert’s consent and qualification” in this appendix;
- (d) the Scheme;
- (e) the memorandum and articles of association of the Company;
- (f) the announcement of the Company dated 21 July 2017; and
- (g) this circular.

**8. MISCELLANEOUS**

In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

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## NOTICE OF EGM

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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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (“**Meeting**”) of China Sunshine Paper Holdings Company Limited (the “**Company**”) will be held at China Sunshine Paper Office Tower, Changle Economic Development Zone, Weifang, Shandong, China, on Friday, 29 September 2017 at 10:00 a.m. for the following purposes:

#### ORDINARY RESOLUTIONS

1. “**THAT** the grant of 12,762,000 awarded shares pursuant to the share award scheme adopted by the board of directors of the Company on 27 June 2017 (the “**Scheme**”) to Mr. Wang Dongxing be and is hereby approved and confirmed;”
2. **THAT** the grant of 3,210,000 awarded shares pursuant to the Scheme to Mr. Wang Changhai be and is hereby approved and confirmed;”
3. “**THAT** the grant of 802,000 awarded shares pursuant to the Scheme to Mr. Liu Wenzheng be and is hereby approved and confirmed;”
4. “**THAT** the allotment and issue of an aggregate of 16,774,000 awarded shares pursuant to the Scheme be and are hereby approved and confirmed; and”

\* For identification purposes only

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## NOTICE OF EGM

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5. “**THAT** any one Director be and is hereby authorized to do all things and sign all documents in connection with the allotment and issue of the awarded shares pursuant to the Scheme.”

By order of the Board of  
**China Sunshine Paper Holdings Company Limited**  
**Wang Dongxing**  
*Chairman*

Weifang, China, 1 September 2017

*Notes:*

1. The register of members of the Company will be closed from 26 September 2017 to 29 September 2017, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the Meeting, shareholders of the Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 pm on 25 September 2017.
2. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his or her proxy to attend and vote on his or her behalf. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
3. Where there are joint registered holders of any shares of the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he or she was solely entitled to do so. However, if more than one of such joint holders be present at any Meeting personally or by proxy, the joint holder whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect of such joint holding.
4. In order to be valid, a proxy form in the prescribed form together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 48 hours before the time fixed for holding the extraordinary general meeting or any adjournment of such meeting.

*As at the date of this notice, the Directors are:*

<i>Executive Directors:</i>	<i>Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai</i>
<i>Non-executive Directors:</i>	<i>Mr. Xu Leihua and Mr. Li Hengwen</i>
<i>Independent non-executive Directors:</i>	<i>Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie</i>