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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

CONTINUING CONNECTED TRANSACTIONS

STEAM SUPPLY AGREEMENT

On 31 December 2012, Shengshi Thermoelectricity and Shengtai Medicine entered into the New Steam Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for a term of three years with effect from 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Steam Supply Agreement are substantially the same as those of the Current Steam Supply Agreement.

ELECTRICITY SUPPLY AGREEMENT

On 31 December 2012, Shengshi Thermoelectricity and Shengtai Medicine also entered into the New Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for a term of three years with effect from 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Electricity Supply Agreement are substantially the same as those of the Current Electricity Supply Agreement.

IMPLICATIONS UNDER THE LISTING RULES

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

The Board (excluding the independent non-executive Directors) considers that the terms of the Non-exempt Continuing Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors, who comprise the independent board committee of the Directors, reserve their opinion pending advice to be obtained from Fortune Financial Capital Limited, which has been appointed as the independent financial adviser to advise both the independent board committee of the Directors and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions.

WRITTEN SHAREHOLDERS' APPROVAL AND APPLICATION FOR WAIVER

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

GENERAL

It is expected that a circular containing, inter alia, (1) further information on the Non-exempt Continuing Connected Transactions; (2) the letter from Fortune Financial Capital Limited to both the independent board committee of the Directors and the Independent Shareholders; and (3) the recommendation of the independent board committee of the Directors to the Independent Shareholders, will be dispatched to the Shareholders as soon as possible and within 15 business days from the date of publication of this announcement.

1. BACKGROUND

New Steam Supply Agreement

On 31 December 2012, Shengshi Thermoelectricity and Shengtai Medicine entered into the New Steam Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for a term of three years with effect from 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Steam Supply Agreement are substantially the same as those of the Current Steam Supply Agreement.

New Electricity Supply Agreement

On 31 December 2012, Shengshi Thermoelectricity and Shengtai Medicine also entered into the New Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for a term of three years with effect from 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Electricity Supply Agreement are substantially the same as those of the Current Electricity Supply Agreement.

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

Further details of the New Steam Supply Agreement, the New Electricity Supply Agreement and the Non-exempt Continuing Connected Transactions are set out below.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. New Steam Supply Agreement

A. Relationship between the Parties

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

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

B. Principal Terms

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

Price:	RMB132.74 per ton (exclusive of tax and subject to adjustment in accordance with any significant change in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).
Payment methods and payment terms:	Settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month.
Historical figures:	The historical transaction amounts (exclusive of tax) for the three years ended 31 December 2011 and the first eleven months ended 30 November 2012 are approximately RMB54.6 million, RMB63.2 million, RMB67.4 million and RMB70.8 million, respectively.
Proposed annual caps:	Estimated not to exceed RMB103.9 million (equivalent to approximately HK\$128.1 million), RMB134.7 million (equivalent to approximately HK\$166.1 million) and RMB174.6 million (equivalent to approximately HK\$215.3 million) (exclusive of tax) (each a “ Steam Supply Annual Cap ”) respectively for each of the three financial years ending 31 December 2015, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for steam by both Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of steam and the projected growth in the steam production capacity of Shengshi Thermoelectricity.

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

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

The Board (excluding the independent non-executive Directors) considers that the terms of the New Steam Supply Agreement are determined on arm's length basis and in line with normal commercial terms, and that the terms of the New Steam Supply Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The independent non-executive Directors reserve their opinion pending advice to be obtained from Fortune Financial Capital Limited, the independent financial adviser to the independent board committee of the Directors and the Independent Shareholders.

II. New Electricity Supply Agreement

A. Relationship between the Parties

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

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

B. Principal Terms

Date of agreement:	31 December 2012
Parties:	Shengshi Thermoelectricity as supplier Shengtai Medicine as customer
Subject:	Supply of electricity from Shengshi Thermoelectricity to Shengtai Medicine.
Term:	From 1 January 2013 to 31 December 2015, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).
Price:	RMB0.45 per kilowatt-hour (exclusive of tax and subject to adjustment of any significant increase in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).

Payment methods and payment terms:	Settled by cash or bills semi-monthly, not later than 18th of the current month and 3rd of the next month.
Historical figures:	The historical transaction amounts (exclusive of tax) for the three years ended 31 December 2011 and the first eleven months ended 30 November 2012 are approximately RMB24.9 million, RMB30.6 million, RMB35.1 million and RMB40.9 million, respectively.
Proposed annual caps:	Estimated not to exceed RMB60.8 million (equivalent to approximately HK\$74.9 million), RMB78.8 million (equivalent to approximately HK\$97.2 million) and RMB102.1 million (equivalent to approximately HK\$125.9 million) (each an “ Electricity Supply Annual Cap ”) (exclusive of tax) respectively for each of the three financial years ending 31 December 2015, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for electricity by both Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of electricity and the projected growth in the electricity production capacity of Shengshi Thermoelectricity.

C. Reasons for and benefits of the Electricity Supply Agreement

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

The Board (excluding the independent non-executive Directors) considers that the terms of the New Electricity Supply Agreement are determined on arm's length basis and in line with normal commercial terms, and that the terms of the New Electricity Supply Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The independent non-executive Directors reserve their opinion pending advice to be obtained from Fortune Financial Capital Limited, the independent financial adviser to the independent board committee of the Directors and the Independent Shareholders.

3. IMPLICATIONS UNDER THE LISTING RULES

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

The Board (excluding the independent non-executive Directors) considers that the terms of the Non-exempt Continuing Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors reserve their opinion pending advice to be obtained from Fortune Financial Capital Limited, the independent financial adviser to the independent board committee of the Directors and the Independent Shareholders.

4. WRITTEN SHAREHOLDERS' APPROVAL AND APPLICATION FOR WAIVER

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

5. CONDITIONS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

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

6. GENERAL

The Company is principally engaged in the production and sale of white top linerboard, light-coated linerboard and core board.

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

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

An independent board committee of the Directors, comprising Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye, has been formed to advise the Independent Shareholders and Fortune Financial Capital Limited has been appointed as the independent financial adviser to advise both the independent board committee of the Directors and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions.

It is expected that a circular containing, inter alia, (1) further information on the Non-exempt Continuing Connected Transactions; (2) the letter from Fortune Financial Capital Limited to both the independent board committee of the Directors and the Independent Shareholders; and (3) the recommendation of the independent board committee of the

Directors to the Independent Shareholders, will be dispatched to the Shareholders as soon as possible and within 15 business days from the date of publication of this announcement.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Cap Amounts”	the Steam Supply Annual Cap and the Electricity Supply Annual Cap
“Century Sunshine”	Shandong Century Sunshine Paper Group Co., Ltd.* (山東世紀陽光紙業集團有限公司), a company established under the laws of the PRC with limited liability and an indirect subsidiary of the Company. It is engaged in the business of production and sales of high-grade paper boards and the principal operating subsidiary in the Group
“China Sunrise”	China Sunrise Paper Holdings Limited, a company incorporated in the Cayman Islands, a Shareholder holding approximately 40.54% interest of the Company as at the date of this announcement
“Company”	China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司), an exempt company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Current Electricity Supply Agreement”	an electricity supply agreement dated 27 October 2009 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine
“Current Steam Supply Agreement”	a steam supply agreement dated 27 October 2009 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine
“Directors”	the directors of the Company
“Electricity Supply Annual Cap”	the proposed cap amount for transactions under the Electricity Supply Agreement for each of the three years ending 31 December 2015 as referred to in the sub-paragraph headed “Proposed annual caps” under sub-section B, section II, Part 2 of this announcement

“Good Rise”	Good Rise Holdings Limited, a company incorporated in the British Virgin Islands, a Shareholder holding approximately 9.16% interest of the Company as at the date of this announcement
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of period before the Company became the holding company of its presents subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders who have no interests in and who are not required to abstain from voting on a resolution to approve the Non-exempt Continuing Connected Transactions Agreement(s), the Non-exempt Continuing Connected Transactions and the relevant Cap Amount(s) pursuant to the Listing Rules
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“New Electricity Supply Agreement”	an electricity supply agreement dated 31 December 2012 and entered into between Shengshi Thermoelectricity and Shengtai Medicine renewing the Current Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine
“New Steam Supply Agreement”	a steam supply agreement dated 31 December 2012 and entered into between Shengshi Thermoelectricity and Shengtai Medicine, renewing the Current Steam Supply Agreement pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine
“Non-exempt Continuing Connected Transactions”	the transactions contemplated under each of the Non-exempt Continuing Connected Transactions Agreements
“Non-exempt Continuing Connected Transactions Agreements”	the New Steam Supply Agreement and the New Electricity Supply Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Seabright”	Seabright SOF (I) Paper Limited, a company incorporated in the British Virgin Islands, a Shareholder holding approximately 8.89% interest of the Company as at the date of this announcement

“Shengshi Thermoelectricity”	昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.*), a company established under the laws of the PRC with limited liability on 17 October 2003 and an indirect subsidiary of the Company with effect from 29 June 2007. It is held as to 80% by Century Sunshine and 20% by Shengtai Medicine
“Shengtai Medicine”	濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.*), a company established under the laws of the PRC with limited liability on 10 February 2004. It has a 20% equity interest in Shengshi Thermoelectricity. It is principally engaged in the business of production of pharmaceutical products
“Steam Supply Annual Cap”	the proposed cap amount for transactions under the Steam Supply Agreement for each of the three years ending 31 December 2015 as referred to in the sub-paragraph headed “Proposed Annual Caps” under sub-section B, section I, Part 2 of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Unless otherwise defined, an exchange rate of HK\$1.00 = RMB0.811 is adopted in this announcement, for illustration purpose only.

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

Weifang, the PRC, 31 December 2012

As at the date of this announcement, the Directors are:

Executive Directors: *Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Ci Xiaolei*

Non-executive Directors: *Mr. Xu Fang and Mr. Wang Junfeng*

Independent non-executive Directors: *Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye*

* *For identification purpose only.*