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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)

CONNECTED TRANSACTION

ACQUISITION OF EQUITY INTEREST IN SHENYI TRANSPORTATION

The Board announces that on 20 May 2008, Changle Sunshine, a subsidiary held as to 99.90% indirectly by the Company (as purchaser), entered into the Sale and Purchase Agreement with Mr. Wang Sibao (as vendor in the capacity as registered vendor in the capacity as registered owner) and the Group A Beneficial Owners and the Group B Beneficial Owners (as vendors in the capacity as beneficial owners) to acquire 48.76% equity interest in Shenyi Transportation for a total cash consideration of RMB5,606,259.75. Upon completion of the Sale and Purchase Agreement, Shenyi Transportation will become a wholly-owned subsidiary of Changle Sunshine.

Mr. Wang Sibao holds 44.00% interest in Shenyi Transportation as to 1.34% for himself and as to 42.66% on trust for 66 individuals, including Mr. Lu Yuzhong. Mr. Xia Lianbao holds 4.76% interest in Shenyi Transportation on trust for 7 individuals. As Mr. Wang Sibao is the brother of Mr. Wang Dongxing, an executive Director, the chairman of Board of the Company and a member of the Controlling Shareholders Group, and Mr. Lu Yuzhong is a brother of Mr. Lu Yujie, who is a member of the Controlling Shareholders Group, which in turn is regarded as a substantial shareholder of the Company under the Listing Rules, Mr. Wang Sibao and Mr. Lu Yuzhong are connected persons of the Company pursuant to the Listing Rules. Accordingly, the transaction under the Sale and Purchase Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the total consideration is less than HK\$10,000,000.00 and the applicable percentage ratios are less than 2.50%, the transaction under the Sale and Purchase Agreement is subject to reporting and announcement requirements but is exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors, including the independent non-executive Directors, consider that the Sale and Purchase Agreement have been entered into on normal commercial terms and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

SALE AND PURCHASE AGREEMENT

The Board announces that on 20 May 2008, Changle Sunshine, a subsidiary held as to 99.90% indirectly by the Company, entered into the Sale and Purchase Agreement with Mr. Wang Sibó (as vendor in the capacity as registered and beneficial owner), Mr. Xia Lianbao (as vendor in the capacity as registered owner) and 73 other individuals (as vendors in the capacity as beneficial owners) to acquire 48.76% equity interest in Shenyi Transportation for a total cash consideration of RMB5,606,259.75.

Date: 20 May 2008

Parties:

Vendors:

- (1) Mr. Wang Sibó (as registered owner as to 44.00% and beneficial owner as to 1.34% interest)
- (2) Group A Beneficial Owners (as beneficial owners as to an aggregate of 42.66% interest), including Mr. Lu Yuzhong (who has 1.31% beneficial interest)
- (3) Mr. Xia Lianbao (as registered owner as to 4.76% interest)
- (4) Group B Beneficial Owners (as beneficial owners as to an aggregate of 4.76% interest)

(collectively, the “Vendors”)

Purchaser: Changle Sunshine

Subject: Pursuant to the Sale and Purchase Agreement, the Purchaser agreed to acquire the Sale Interest, being 48.76% of the equity interest in Shenyi Transportation from the Vendors.

Upon completion of the Sale and Purchase Agreement, Shenyi Transportation will become a wholly owned subsidiary of Changle Sunshine.

Consideration: The total consideration of RMB5,606,259.75 was agreed between the parties based on arm’s length negotiations and by reference to, among other things, the valuation of the net assets of Shenyi Transportation of RMB11,497,661.51 as at 31 December 2007 as contained in the Asset Valuation Report issued by Weifang Puhui Certified Public Accountants, an Independent Third Party valuer. The acquisition will be funded by the Group’s internal resources.

The original purchase cost of the Sale Interest by the Vendors is RMB4,300,632.00, being 48.76% of the registered capital of Shenyi Transportation, to which Mr. Wang Sibó and the Group A Beneficial

Owners collectively contributed an aggregate of RMB3,880,800.00 (representing a 44.00% equity interest) and the Group B Beneficial Owners have collectively contributed an aggregate of RMB419,832.00 (representing a 4.76% equity interest), respectively.

Payment schedule: The consideration shall be paid by the Purchaser in cash to the Vendors in the following manner:

- (i) A deposit of RMB4,485,007.80, which represents 80.00% of the total consideration, to be paid within 3 business days after execution of the Sale and Purchase Agreement; and
- (ii) RMB1,121,251.95, which represents the remaining balance of the total consideration, to be paid within 3 business days from the date of the completion of the registration procedures regarding the transfer of the Sale Interest.

REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE AGREEMENT

The Company did not have any prior transactions or relationships with any of the Vendors which required aggregation under Rule 14A.25 of the Listing Rules.

Prior to the completion of the Sale and Purchase Agreement, Shenyi Transportation is a 51.24% non-wholly owned subsidiary of Changle Sunshine. Pursuant to the Sale and Purchase Agreement, Changle Sunshine will acquire the remaining 48.76% interest in Shenyi Transportation. Upon completion of the Sale and Purchase Agreement, Shenyi Transportation will become a wholly-owned subsidiary of Changle Sunshine. Its financial results have been and will continue to be consolidated into the financial statements of the Group after the transfer of the Sale Interest.

The Group intends to minimize the impact of the continued increase in oil prices on its transportation costs by operating Shenyi Transportation more efficiently. By acquiring the Sale Interest, Changle Sunshine will have full control over Shenyi Transportation as its sole shareholder. The acquisition will allow Changle Sunshine to manage Shenyi Transportation more closely and exercise more control over Shenyi Transportation's costs, which represent a significant portion of the Group's transportation costs. In addition, the Group intends to increase its managerial and capital support to Shenyi Transportation after the acquisition, with a view to increase the managerial efficiency and profitability of Shenyi Transportation.

The Directors, including the independent non-executive Directors, consider that the Sale and Purchase Agreement have been entered into on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION ON SHENYI TRANSPORTATION

Shenyi Transportation was established in February 2004. Its registered capital is RMB8.82 million. It is engaged in general cargo transportation and domestic and international container transportation

and is held as to 51.24% by Changle Sunshine immediately prior to the transfer of the Sale Interest under the Sale and Purchase Agreement.

For the two financial years ended 31 December 2007, the audited (in accordance with PRC GAAP) net profits of Shenyi Transportation before and after tax are as follows:

1. For the financial year ended 31 December 2006:

(a) Net profit before tax: RMB1,348,147.76

(b) Net profit after tax: RMB903,259.00

2. For the financial year ended 31 December 2007:

(a) Net profit before tax: RMB2,851,542.75

(b) Net profit after tax: RMB1,910,533.64.

As at 31 December 2007, the audited (in accordance with PRC GAAP) net assets of Shenyi Transportation was RMB16,985,768.51.

The difference of RMB5,588,107.00 between the book value of the net assets of Shenyi Transportation in the amount of RMB16,985,768.51 as audited (in accordance with PRC GAAP) and the valuation of the net assets of Shenyi Transportation in the amount of RMB11,497,661.51 as contained in the Asset Valuation Report was mainly attributable to: (a) a difference between PRC GAAP and valuation standards on depreciation treatment resulting in a depreciation of approximately RMB3 million (which was not required to be made under PRC GAAP) being made in the Asset Valuation Report; and (b) a dividend payable in the amount of approximately RMB2 million in the books of Shenyi Transportation was treated as current liabilities in the Asset Valuation Report, which amount was not treated as liabilities of Shenyi Transportation in its audited accounts in accordance with PRC GAAP.

INFORMATION ON THE GROUP AND CHANGLE SUNSHINE

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

Changle Sunshine is a subsidiary in the Group, held indirectly by the Company as to 99.90% of its equity interest. Changle Sunshine is principally engaged in the business of production and sales of high-grade paper boards.

LISTING RULES IMPLICATIONS

Mr. Wang Sibao is the brother of Mr. Wang Dongxing, an executive Director, the chairman of the Company and a member of the Controlling Shareholders Group. Mr. Lu Yuzhong is a brother of Mr. Lu Yujie, who is a member of the Controlling Shareholders Group which in turn is regarded as a substantial shareholder of the Company under the Listing Rules. Accordingly, Mr. Wang Sibao and Mr. Lu Yuzhong are connected persons of the Company pursuant to the Listing Rules. Accordingly, the transaction under the Sale and Purchase Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the total consideration is less than HK\$10,000,000.00 and the applicable percentage ratios are less than 2.50%, the above transaction

under the Sale and Purchase Agreement is subject to reporting and announcement requirements but is exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interest pursuant to the Sale and Purchase Agreement
“Asset Valuation Report”	a valuation report issued by Weifang Puhui Certified Public Accountants on 12 January 2008 regarding the assessment of the value of the assets of Shenyi Transportation as at 31 December 2007
“Board”	the board of directors of the Company
“Controlling Shareholders Group”	a group of 20 individuals comprising Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Wang Yilong, Ms. Wu Rong, Mr. Wang Feng, Mr. Sang Ziqian, Mr. Sang Yonghua, Mr. Wang Yongqing, Mr. Chen Xiaojun, Mr. Zheng Fasheng, Mr. Zuo Xiwei, Mr. Ma Aiping, Mr. Li Zhongzhu, Ms. Li Hua, Mr. Guo Jianlin, Mr. Sun Qingtao, Mr. Lu Yujie, Mr. Hu Gang, Mr. Zhang Zengguo and Mr. Wang Changhai, who, collectively indirectly holds approximately 42.36% of the equity interest in the Company
“Changle Sunshine”	昌樂世紀陽光紙業有限公司 (Changle Century Sunshine Paper Industry Co., Ltd. *), a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of the Company in which the Group has 99.90% interest
“Company”	China Sunshine Paper Holdings Company Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Group A Beneficial Owners”	a group of 66 individuals, including Mr. Lu Yuzhong and who in aggregate control 42.66% of the equity interest of Shenyi Transportation. Mr. Wang Sibao held the interests in Shenyi Transportation (42.66%) beneficially owned by the Group A Beneficial Owners prior to the Sale and Purchase Agreement

“Group B Beneficial Owners”	a group of 7 individuals who in aggregate control 4.76% of the equity interest of Shenyi Transportation. Mr. Xia Lianbao held the interests in Shenyi Transportation (4.76%) beneficially owned by the Group B Beneficial Owners prior to the Sale and Purchase Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party(ies)”	an independent third part(ies), including the ultimate beneficial owners of such party(ies) who is (are), not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“PRC GAAP”	the generally accepted accounting principles in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the Sale and Purchase Agreement entered into between the Vendors and the Purchaser on 20 May 2008 in relation to the Acquisition
“Sale Interest”	an aggregate of 48.76% equity interest in Shenyi Transportation held by the Vendors which is the subject of the transaction under the Sale and Purchase Agreement
“Shareholder(s)”	the shareholder(s) of the Company
“Shenyi Transportation”	昌樂申易運輸有限公司 (Changle Shenyi Transportation Co., Ltd.*), a company established under the laws of the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“%”

per cent.

By Order of the Board
Wang Dongxing
Chairman

Weifang, Shandong, PRC, 20 May 2008

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

Executive Directors: Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong

Non-executive Directors: Mr. Xu Fang and Mr. Wang Nengguang

Independent non-executive Directors: Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye

* *For identification purposes only*