

THE CONTROLLING SHAREHOLDER GROUP

The Controlling Shareholder Group comprises twenty individuals. Throughout the Track Record Period, the voting rights held by members of the Controlling Shareholder Group in Changle Sunshine, the principal operating subsidiary of the Group in the PRC (in the case of 李華 (Ms. Li Hua), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai) since they became a shareholder of Changle Sunshine), were exercised collectively through 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) or companies controlled by each of them, namely Xintiandi and Shanghai Institute (by themselves and on behalf of the other members of the Controlling Shareholder Group).

As disclosed in the section headed “History and Development” of this prospectus, the Controlling Shareholder Group was initially made up of two sub-groups, namely a group of ex-employees of Shandong Chenming Paper Industry Group Co., Ltd. (山東晨鳴紙業集團股份有限公司) and comprising (1) 王東興 (Mr. Wang Dongxing); (2) 桑自謙 (Mr. Sang Ziqian); (3) 鄭法聖 (Mr. Zheng Fasheng); (4) 桑永華 (Mr. Sang Yonghua); (5) 陳效雋 (Mr. Chen Xiaojun); (6) 孫清濤 (Mr. Sun Qingtao); (7) 左希偉 (Mr. Zuo Xiwei) and (8) 馬愛平 (Mr. Ma Aiping) (“Shandong Team”), and a group comprising (1) 施衛新 (Mr. Shi Weixin); (2) 王益龍 (Mr. Wang Yilong); (3) 吳蓉 (Ms. Wu Rong); (4) 汪峰 (Mr. Wang Feng); (5) 王永慶 (Mr. Wang Yongqing); (6) 陸雨杰 (Mr. Lu Yujie); (7) 李仲翥 (Mr. Li Zhongzhu) and (8) 郭建林 (Mr. Guo Jianlin) (“Shanghai team”). Among members of the Shanghai Team, (1) 施衛新 (Mr. Shi Weixin); (3) 吳蓉 (Ms. Wu Rong); and (4) 汪峰 (Mr. Wang Feng) were ex-colleagues of Shanghai Paper Machinery General Factory (上海造紙機械總廠) and they, together with (2) 王益龍 (Mr. Wang Yilong), a business contact and personal friend of the above three individuals who is also experienced in electronic control systems, established the Shanghai Institute in May 1993. The other four members of the Shanghai Team were initially employees of the Shanghai Institute. In November 2003, (1) 胡剛 (Mr. Hu Gang); (2) 張增國 (Mr. Zhang Zengguo); (3) 王長海 (Mr. Wang Changhai); and (4) 李華 (Ms. Li Hua) also participated in the investment of Changle Sunshine and joined the Controlling Shareholder Group. 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai) were members of the senior management team of Changle Sunshine whilst 李華 (Ms. Li Hua) was a personal friend of both 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin).

Members within each of the Shandong Team and the Shanghai Team have known each other for five to ten years prior to his/her investment in Changle Sunshine through their respective former employment. In addition, within the Shandong team, 陳效雋 (Mr. Chen Xiaojun) is a brother-in-law of 王東興 (Mr. Wang Dongxing). Through the personal connection between 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin), the Shanghai Team and the Shandong Team jointly invested into Changle Sunshine in December 2000 and the two teams together with 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo), 王長海 (Mr. Wang Changhai) and 李華 (Ms. Li Hua), who collectively constitute the Controlling Shareholder Group, have been acting in concert (for the purpose of the Takeovers Code) since then.

In addition to the routine corporate resolutions such as adoption of annual accounts, members of the Controlling Shareholder Group have reached unanimous consensus on all key decisions at shareholder and board level of Changle Sunshine since its establishment (or since he/she has become interested in Changle Sunshine), including the various increase of registered capital, transfer of equity interest, introduction of new shareholders and the relevant Reorganisation steps involving Changle Sunshine, as detailed in the “History and Development” section of this prospectus.

Pursuant to the various trust agreements, Xintiandi, Shanghai Institute, 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) were given absolute discretion to exercise the voting rights in Changle Sunshine entrusted to it or him. 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) informally communicate with members of the Controlling Shareholder Group although final decisions are made by 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin). In addition, in order to achieve consensus among them, members of the Controlling Shareholder Group had informal meetings and consultations over the affairs of Changle Sunshine from time to time. Unanimous consent was achieved on each occasion and all board and shareholders resolutions of Changle Sunshine were passed with unanimous consent. In addition, none of the members of the Controlling Shareholder Group has ever attempted to exercise his or her voting rights independently without the concurrence of the other members.

Pursuant to an agreement (“Concert Parties Agreement”) dated 16 June 2006 (as amended by a supplemental agreement dated 19 November 2007) and entered into among the members of the Controlling Shareholder Group, each member confirmed, among other things, since he/she became interested in and possessed voting rights in China Sunshine, China Sunrise and any members of the Group (“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 was acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on all major affairs relating to the business of the Target Entities. In addition, each of them also agreed to keep the other group members informed of their direct or indirect interest in the Target Entities or changes thereof, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by shareholders.

In addition, pursuant to the Concert Parties Agreement, members of the Controlling Shareholder Group agreed that, among other things:

- (i) when exercising their respective voting rights at the shareholders’ meetings of the Target Entities, they will procure any entities and trusts controlled by them, which are entitled to vote at the shareholders’ meetings of the Target Entities, to vote unanimously in accordance with the consensus achieved with the other members of the Controlling Shareholder Group;
- (ii) when exercising their voting rights at board meetings of the Target Entities (where applicable), the general consensus achieved amongst members of the Controlling Shareholder Group at the board meetings shall apply to those members who did not express their views, and such consensus achieved shall be valid and binding amongst all the members of the Controlling Shareholder Group; and
- (iii) decisions based on the consensus achieved in the shareholders’ meetings and/or board meetings of the Target Entities shall not be challenged by the members of the Controlling Shareholder Group on the basis that their personal interests are not reflected in the decisions.

The term of the Concert Parties Agreement is seven years and will continue to have effect thereafter unless:

- (a) the parties thereto agree in writing to terminate the same; or
- (b) (in respect of a particular Target Entity) upon the winding up of the relevant Target Entity by the passing of shareholders’ resolution or court orders.

Elimination of possible business which may compete or constitute connected transactions with the Group**(a) Shanghai Institute**

Prior to the Reorganisation, certain members of the Controlling Shareholder Group including 施衛新 (Mr. Shi Weixin), 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng), 王永慶 (Mr. Wang Yongqing), 陸雨傑 (Mr. Lu Yujie), 李仲翥 (Mr. Li Zhongzhu) and 郭建林 (Mr. Guo Jianlin) collectively held 100% equity interest in Shanghai Institute. Shanghai Institute is principally engaged in the business of research, development and sales of industrial automation and mechanical devices and accessories, including automation and control systems used in machineries for the paper manufacturing industry.

During the Track Record Period, Changle Sunshine procured certain control systems and software for its paper manufacturing machineries from Shanghai Institute from time to time. With a view to avoid any potential or possible conflict of interests and competition with the business of the Group and minimise the number and scope of connected transactions after Listing, on 18 August 2007, each member of the Controlling Shareholder Group who had an interest in Shanghai Institute, entered into an equity transfer agreement pursuant to which the vendors transferred all their respective interests in Shanghai Institute to the following individuals, all of which are Independent Third Parties: (a) 施衛新 (Mr. Shi Weixin) transferred 26.676% of the equity interests in Shanghai Institute to 張大成 (Mr. Zhang Dacheng) for a consideration of RMB1,333,800; (b) 王益瓏 (Mr. Wang Yilong) transferred 17.83% of the equity interests in Shanghai Institute to 高國鎮 (Mr. Gao Guozheng) for a consideration of RMB891,500; (c) 吳蓉 (Ms. Wu Rong) transferred 20.724%, 1.145% and 0.199% of the equity interests in Shanghai Institute to 張大成 (Mr. Zhang Dacheng), 高國鎮 (Mr. Gao Guozheng) and 朱惠香 (Ms. Zhu Huixiang) respectively for a consideration of RMB1,036,198, RMB57,245 and RMB9,957, respectively; (d) 汪峰 (Mr. Wang Feng) transferred 13.676% of the equity interests in Shanghai Institute to 張大成 (Mr. Zhang Dacheng) for a consideration of RMB683,800; (e) 王永慶 (Mr. Wang Yongqing) transferred 8.04% of the equity interests in Shanghai Institute to 高國鎮 (Mr. Gao Guozheng) for a consideration of RMB402,000; (f) 李仲翥 (Mr. Li Zhongzhu) transferred 4.5% of the equity interests in Shanghai Institute to 朱惠香 (Ms. Zhu Huixiang) for a consideration of RMB225,000; (g) 郭建林 (Mr. Guo Jianlin) transferred 4% of the equity interests in Shanghai Institute to 張大成 (Mr. Zhang Dacheng) for a consideration of RMB200,000; and (h) 陸雨傑 (Mr. Lu Yujie) transferred 3.21% of the equity interests in Shanghai Institute to 張大成 (Mr. Zhang Dacheng) for a consideration of RMB160,500. The consideration for each of the above transfers was equivalent to the registered capital transferred.

(b) Weidong Chemical

Prior to the Reorganisation, each of 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing), both members of the Controlling Shareholder Group, held a 50% equity interest in Weidong Chemical, which in turn owned a 0.10% interest in Changle Sunshine. Weidong Chemical is principally engaged in the manufacture and sale of chemical agent used in paper manufacturing.

During the Track Record Period, Changle Sunshine procured certain chemicals used for its paper manufacturing machineries from Weidong Chemical from time to time. With a view to avoiding any potential or possible conflict of interests and competition with the business of the Group and minimising connected transactions after Listing, on 6 August 2007, 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) disposed of their respective equity interest in Weidong Chemical to 王呈軍 (Mr. Wang Chengjun), an employee of the Group and

currently the head of securities department of the Group, at a consideration of RMB159,350 each (i.e. with an aggregate consideration of RMB318,700), which was paid by 王呈軍 (Mr. Wang Chengjun) by cash using his own resources. Both 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) had known 王呈軍 (Mr. Wang Chengjun) for many years and believe he can take the business of Weidong Chemical forward. The consideration of RMB318,700 was determined based on the net asset value of Weidong Chemical as at 31 July 2007 as determined by 濰坊普惠有限責任會計師事務所 (Weifang Puhui Limited Liability Auditors). 王呈軍 (Mr. Wang Chengjun) held the interest in Weidong Chemical for himself and not on trust for any other persons, including 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing).

(c) Other companies

昌樂昌興廢品收購站 (Changle Changxing Waste Collection Point) (“Changle Changxing”) is a private enterprise 私營企業 and is engaged in the business of recovery of waste paper. It was previously beneficially owned by 左希偉 (Mr. Zuo Xiwei), a member of the Controlling Shareholder Group. Changle Changxing has ceased operations since 2006 and was deregistered on 30 July 2006.

上海複林造紙機械有限公司 (Shanghai Fulin Paper Making Machinery Co., Ltd.) (“Fulin”) was held as to 48% by 王益瓏 (Mr. Wang Yilong), a member of the Controlling Shareholder Group and as to 52% by the Shanghai Institute. Fulin is engaged in the business of sales and servicing of machinery. On 8 August 2007, 王益瓏 (Mr. Wang Yilong) transferred the 48% equity interests in Fulin to 張大成 (Mr. Zhang Dacheng), an Independent Third Party, at a consideration of RMB240,000.

上海賽德電氣工程有限公司 (Shanghai Saide Electrical Engineering Co., Ltd.) (“Saide”) was held as to 21.6% by 施衛新 (Mr. Shi Weixin) and 19.6 % each by 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng) and 童佳杭 (Mr. Tong Jiahang), all being members of the Controlling Shareholder Group except 童佳杭 (Mr. Tong Jiahang). Saide is engaged in the business of distribution of machinery, electronic equipment and devices, communication devices and paper products. On 15 August 2007, 施衛新 (Mr. Shi Weixin), 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong) and 童佳杭 (Mr. Tong Jiahang) transferred all their equity interests in Saide to 張大成 (Mr. Zhang Dacheng), an Independent Third Party, at a consideration of RMB100,000, RMB100,000, RMB100,000, and RMB100,000 respectively. At the same time, 汪峰 (Mr. Wang Feng) also transferred his 19.6% equity interests in Saide to 莊楹楸 (Ms. Zhuang Yaqiu), an Independent Third Party, at a consideration of RMB100,000.

Each member of the Controlling Shareholder Group has confirmed that, save as disclosed in this prospectus, no member of the Controlling Shareholder Group or their respective associates has any interest in directly or indirectly, either on his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carrying on, participating, or is interested or engaging in any business outside the Group which may compete or constitute connected transactions with the Group upon Listing.

In view of the matters disclosed above, the Directors consider that the Group is capable of carrying on its business independently of the Controlling Shareholder Group.

NON-COMPETITION UNDERTAKING

Each of the Covenantors has entered into a deed of non-competition (the “Non-competition Deed”) in favour of the Group, pursuant to which each of the Covenantors has confirmed that he/she/it is not, and his/her/its respective associates (other than members of

the Group) are not, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carrying on, participating or is interested or engaging in or acquiring or holding (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of the Group (the “Restricted Business”).

Pursuant to the Non-competition Deed, each of the Covenantors has also undertaken to the Group that, he/she/it would not, and would procure that his/her/its respective associates (other than members of the Group) would not, for so long as the Non-competition Deed has effect, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any Restricted Business, except where:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available to any member of the Group, and the member of the Group, after review and approval by its board of directors or shareholders as required under the relevant laws and regulations and in accordance with its articles of association, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, and that the principal terms by which any Covenantor (or his/her/its respective associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are no more favourable than those offered to the member of the Group; or
- (b) the Covenantors or their respective associates in aggregate hold interests in the shares of a company which is listed on a recognised stock exchange, and provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by any of the Covenantors and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company and/or at any time, there should exist at least another shareholder of the company who are independent from the Convenantors, and the number of shares held by such other shareholder(s) in that company should be more than the total number of shares held by the Covenantors and their respective associates in aggregate.

Annual review

Pursuant to the Non-competition Deed, the independent non-executive Directors would review, at least on an annual basis, the compliance with the Non-competition Undertaking by the Covenantors and the options, pre-emptive rights or first rights of refusals provided by the Covenantors on its existing or future competing business. To facilitate the annual review, each of the Covenantors has further undertaken to the Group that, he/she/it should

- (a) provide all information necessary, including but not limited to business opportunities of the Restricted Business presented or available to the Covenantors, for the annual review by the independent non-executive Directors of the enforcement of the Non-competition Undertaking; and
- (b) make an annual declaration on the compliance with the Non-competition Undertaking in the annual report of the Company and a statement therein stating how the Non-competition Undertaking was complied with and enforced is consistent with the principles of voluntary disclosures in the corporate governance report.

Decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Non-competition Deed will be disclosed in the annual report of the Company or by way of announcements to the public.

The obligations of the Covenantors under the Non-competition Deed will cease (i) upon the cessation of listing of the Shares on the Stock Exchange; or (ii) regarding each of the Covenantors, when he or she (or his or her associate(s)) ceases to hold any equity interest, whether directly or indirectly, in the Group; or (iii) when the Covenantors become jointly entitled to exercise or control the exercise of less than 30% of the voting power at general meetings of the Company.