

# HISTORY AND DEVELOPMENT

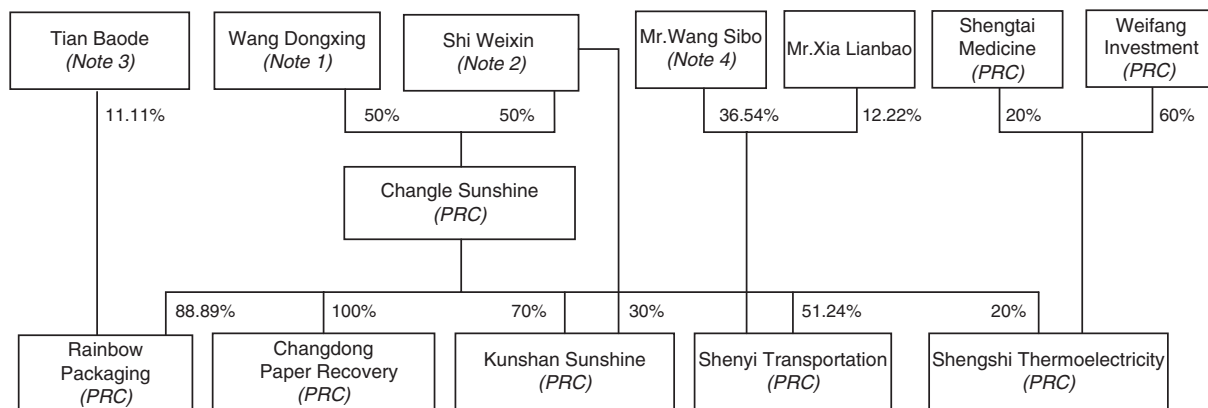
## BUSINESS MILESTONES

The following table summarises the milestones of the business development of the Group:

2000	<ul style="list-style-type: none"> <li>Establishment of Changle Sunshine</li> </ul>
2002	<ul style="list-style-type: none"> <li>Commencement of production of core board</li> </ul>
2004	<ul style="list-style-type: none"> <li>Commencement of production of white top linerboard</li> </ul>
2005	<ul style="list-style-type: none"> <li>Commencement of production of copper plate paper</li> <li>Changle Sunshine entered into research collaboration with the Shandong Institute of Light Industry (山東輕工業學院) in relation to the chemicals used in the paper manufacturing processes</li> </ul>
2006	<ul style="list-style-type: none"> <li>Commencement of second production line of white top linerboard</li> <li>Investment of US\$14 million by SOF(I) and LC Fund III and issuance of the 2006 Convertible Bonds</li> </ul>
2007	<ul style="list-style-type: none"> <li>Commencement of production of light-coated linerboard</li> <li>Investment of US\$22 million by DB and issuance of the 2007 Convertible Bonds</li> <li>Increasing to a controlling interest in Shengshi Thermoelectricity</li> <li>Accredited with GB/T 24001-2004 idt ISO 14001:2004 certification in relation to its environmental management system and GB/T 19001-2000 idt ISO9001:2000 certification in relation to its quality control system</li> <li>Signed strategic co-operation agreements with several packaging or printing companies who are suppliers to various leading manufacturers such as Haier, Huiyuan Juice, Master Kong Chef, Mengniu Dairy, Tsingtao Brewery and Yili Dairy</li> </ul>

## GROUP STRUCTURE PRIOR TO REORGANISATION

The chart below illustrates the beneficial shareholdings and subsidiaries of the Group immediately prior to the Reorganization:



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## Notes:

- (1) Mr. Wang Dongxing held the 50% interest in Changle Sunshine for himself and on trust for ten other individuals (all of which are members of the Controlling Shareholder Group) in the following proportion pursuant to various entrusted investment agreements:

	Equity interest
王東興 (Mr. Wang Dongxing)	23.18%
桑自謙 (Mr. Sang Ziqian)	4.64%
鄭法聖 (Mr. Zheng Fasheng)	3.57%
桑永華 (Mr. Sang Yonghua)	4.46%
陳效雋 (Mr. Chen Xiaojun)*	3.80%
孫清濤 (Mr. Sun Qingtao)	1.73%
左希偉 (Mr. Zuo Xiwei)	3.09%
馬愛平 (Mr. Ma Aiping)	2.28%
胡剛 (Mr. Hu Gang)	0.25%
張增國 (Mr. Zhang Zengguo)	1.50%
王長海 (Mr. Wang Changhai)	1.50%
Total:	<u>50.00%</u>

\* Mr. Chen Xiaojun is a brother-in-law of Mr. Wang Dongxing.

Details of the trust arrangement are set out in the sub-section headed “PRC Subsidiaries-1. Changle Sunshine” below.

- (2) Mr. Shi Weixin held the 50% interest in Changle Sunshine for himself and on trust for nine other individuals (all of which are members of the Controlling Shareholder Group) in the following proportion pursuant to various entrusted investment agreements:

	Equity interest
施衛新 (Mr. Shi Weixin)	13.02%
王益龍 (Mr. Wang Yilong)	8.70%
吳蓉 (Ms. Wu Rong)	8.70%
汪峰 (Mr. Wang Feng)	6.68%
王永慶 (Mr. Wang Yongqing)	3.93%
陸雨杰 (Mr. Lu Yujie)	1.57%
李仲翥 (Mr. Li Zhongzhu)	2.20%
郭建林 (Mr. Guo Jianlin)	1.95%
李華 (Ms. Li Hua)	2.00%
胡剛 (Mr. Hu Gang)	1.25%
Total:	<u>50.00%</u>

Details of the trust arrangement are set out in the sub-section headed “PRC Subsidiaries-1. Changle Sunshine” below.

- (3) 田保德 (Mr. Tian Baode) held the 11.11% interest in Rainbow Packaging on behalf of 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office). 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office) is one of the five street offices of Changle County. Street offices are administrative agencies of some local governments in the PRC. The main responsibilities of street offices include, among others (a) dealing with the affairs delegated by the People Commission of the relevant city (市) and the district (區), (b) supervising the operation of the residents commission within the community under the administration of the relevant street office, and (c) reflecting the opinion and requests of the residents within the community under the administration of the relevant street office. 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office) does not have any relationship with Mr. Tian Baode and the Group. The PRC legal advisers of the Company have confirmed that the holding on trust by 田保德 (Mr. Tian Baode) on behalf of 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office) is valid and legal under PRC law.

- (4) 王思波 (Mr. Wang Sibo) is a brother of 王東興 (Mr. Wang Dongxing).

## PRC SUBSIDIARIES

### 1. Changle Sunshine

In September 2000, two groups of individuals, namely a group of ex-employees of 山東晨鳴紙業集團股份有限公司 (Shandong Chenming Paper Industry Group Co., Ltd.) who were experienced in the paper manufacturing business, based in Shandong province and another group of individuals who were experienced in mechanical automation for, among other things, paper manufacturing machineries based in Shanghai, agreed to jointly establish a company to acquire the operational assets of 山東昌樂縣金光造紙廠 (Shandong Changle County Jinguang Paper Mill) (“Jinguang Paper Mill”) from the Industrial and Commercial Bank of China, Changle County Branch (“ICBC Changle Branch”) to repay Jinguang Paper Mill’s loan due to ICBC Changle Branch. The first group comprised (1) 王東興 (Mr. Wang Dongxing) who acted as the principal coordinator of such group of the Shandong-based group of individuals and the person-in-charge for coordinating the acquisition of Jinguang Paper Mill as detailed below owing to his experience and expertise in the paper making industry from his previous employment with the 山東晨鳴紙業集團股份有限公司 (Shandong Chenming Paper Industry Group Co., Ltd.) as a director and deputy general manager; (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 馬愛平 (Mr. Ma Aiping). The second group of Shanghai-based individuals comprised (1) 施衛新 (Mr. Shi Weixin) who acted as the principal coordinator of such group of individuals; (2) 王益瓏 (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) 李仲騫 (Mr. Li Zhongzhu) and 郭建林 (Mr. Guo Jianlin). All the above-named individuals were members of the Controlling Shareholder Group. For further details of their relationship, please refer to the section headed “Relationship with the Controlling Shareholding Group” of this prospectus. As evidenced by the minutes of a preparatory meeting dated 28 September 2000 for the above acquisition of Jinguang Paper Mill attended by the members of the two groups, it was agreed that the two groups would jointly control the new company. On 18 December 2000, 施衛新 (Mr. Shi Weixin), acting on behalf of Changle Sunshine (which was then in the process of being established), and ICBC Changle Branch entered into a 抵貸轉售資產交接協議書 (Mortgaged Assets Assignment Agreement), pursuant to which Changle Sunshine agreed to acquire the operational assets of Jinguang Paper Mill with an aggregate value of RMB33,184,764 for a consideration of RMB33.0 million, which was paid by a bank loan of RMB32.0 million provided by ICBC Changle Branch and RMB1.0 million provided by Changle Sunshine. As confirmed by the Company’s PRC legal advisers, except for Changle Sunshine being named as the defendant in a claim for RMB350,000 plus interest which Changle Sunshine is defending as at the Latest Practicable Date, as detailed in the paragraph headed “Legal proceedings” under the “Business” section and the sub-paragraph headed “Litigation” under the paragraph headed “Other Information” in Appendix VII of this prospectus, the Group was not required to take up any outstanding or contingent liability of Jinguang Paper Mill.

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In December 2000, Shanghai Institute, Xintiandi and 昌樂世紀陽光紙業有限公司員工持股會 (Employee Shareholding Association of Changle Sunshine) (“Changle Sunshine Employee Shareholding Association”) jointly established Changle Sunshine to acquire Jinguang Paper Mill. At the time of establishment, the shareholding structure of Changle Sunshine was as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	2,500,000	44.17
Xintiandi	2,500,000	44.17
Changle Sunshine Employee Shareholding Association	660,000	11.66
Total:	<u>5,660,000</u>	<u>100.00</u>

Changle Sunshine is principally engaged in the production and sale of machine-made paper, advanced paper board, paper auxiliaries and raw materials of paper.

### *Trust arrangement of Shanghai Institute*

Pursuant to an entrusted investment agreement (“Shanghai Institute Entrusted Investment Agreement I”) dated 16 November 2000 and entered into between Shanghai Institute and certain members of the Controlling Shareholder Group, who were then also shareholders of Shanghai Institute, namely 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), 陸雨杰 (Mr. Lu Yujie), 李仲翥 (Mr. Li Zhongzhu) and 郭建林 (Mr. Guo Jianlin), each of the above-named individuals agreed to contribute capital in the amount of RMB2.5 million (representing 44.17% equity interest of Changle Sunshine) in aggregate to invest in Changle Sunshine and entrusted Shanghai Institute to hold such equity interest on his/her behalf. In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of these eight individuals and was authorised to exercise the aggregate voting rights in relation to this 44.17% equity interest in Changle Sunshine on behalf of these individuals at his discretion. A detailed breakdown of the contribution of capital by each of the above-named members of the Controlling Shareholder Group is set out below:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	696,500	12.31
王益瓏 (Mr. Wang Yilong)	465,500	8.22
吳蓉 (Ms. Wu Rong)	465,500	8.22
汪峰 (Mr. Wang Feng)	357,000	6.31
王永慶 (Mr. Wang Yongqing)	210,000	3.71
陸雨杰 (Mr. Lu Yujie)	83,750	1.48
李仲翥 (Mr. Li Zhongzhu)	117,500	2.08
郭建林 (Mr. Guo Jianlin)	104,250	1.84
Total:	<u>2,500,000</u>	<u>44.17</u>

### *Trust arrangement of Xintiandi*

Pursuant to an entrusted investment agreement (“Xintiandi Entrusted Investment Agreement I”) dated 24 November 2000 and entered into between Xintiandi, which was then held 90% by 王東興 (Mr. Wang Dongxing) who was also one of the directors and legal representatives of Xintiandi, and certain members of the Controlling Shareholder Group, namely 王東興 (Mr. Wang Dongxing), 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei) and 馬愛平 (Mr. Ma Aiping), each of the above-named individuals agreed to contribute capital in the amount of RMB2.5 million (representing 44.17% equity interest of Changle

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Sunshine) in aggregate to invest in Changle Sunshine and entrusted Xintiandi to hold such equity interest on his behalf. Except for 王東興 (Mr. Wang Dongxing) who was a majority shareholder, director and legal representative of Xintiandi, the above-named seven individuals had no relationship with Xintiandi. In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of these eight individuals and was authorised to exercise the aggregate voting rights in relation to this 44.17% equity interest in Changle Sunshine on behalf of these individuals at his discretion. A detailed breakdown of the contribution of capital by each of the above-named members of the Controlling Shareholder Group is set out below:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
王東興 (Mr. Wang Dongxing)	1,240,000	21.91
桑自謙 (Mr. Sang Ziqian)	248,000	4.38
鄭法聖 (Mr. Zheng Fasheng)	190,750	3.37
桑永華 (Mr. Sang Yonghua)	238,500	4.21
陳效雋 (Mr. Chen Xiaojun)	203,250	3.59
孫清濤 (Mr. Sun Qingtao)	92,500	1.64
左希偉 (Mr. Zuo Xiwei)	165,250	2.92
馬愛平 (Mr. Ma Aiping)	121,750	2.15
Total:	<u>2,500,000</u>	<u>44.17</u>

### *Employee Shareholding Association of Changle Sunshine*

According to the capital verification report issued by 昌樂正方有限責任會計師事務所 (Changle Zhengfang Certified Public Accountants' Firm Limited) dated 22 December 2000, the balance of RMB660,000 (representing 11.66% equity interest) in the registered capital of Changle Sunshine held by Changle Sunshine Employee Shareholding Association was contributed by 161 employees of Changle Sunshine. The Company's PRC legal advisers have confirmed that the holding of the equity interest by Changle Sunshine Employee Shareholding Association did not violate any PRC laws.

### **Transfer of interest by Changle Sunshine Employee Shareholding Association**

Pursuant to two equity transfer agreements both dated 11 May 2001 and entered into between Changle Sunshine Employee Shareholding Association and each of Shanghai Institute and Xintiandi, Changle Sunshine Employee Shareholding Association transferred RMB330,000 (representing 5.83% equity interest) of the registered capital in Changle Sunshine to each of Shanghai Institute and Xintiandi at a consideration of RMB330,000 each, respectively. The Company's PRC legal advisers have confirmed that no government approval was required for the transfer of interest in Changle Sunshine held by Changle Sunshine Employee Shareholding Association to Shanghai Institute and Xintiandi. Upon completion of such transfers, the shareholding structure of Changle Sunshine was as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	2,830,000	50.00
Xintiandi	2,830,000	50.00
Total:	<u>5,660,000</u>	<u>100.00</u>

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### *First amendment of trust arrangement of Shanghai Institute*

Pursuant to an amended and restated entrusted investment agreement (“Shanghai Institute Entrusted Investment Agreement II”) dated 4 May 2001 and entered into between Shanghai Institute and certain members of the Controlling Shareholder Group, namely 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), 陸雨杰 (Mr. Lu Yujie), 李仲壽 (Mr. Li Zhongzhu) and 郭建林 (Mr. Guo Jianlin), the above-named individuals agreed to entrust Shanghai Institute to hold their equity interest in the amount of RMB2.83 million (representing 50% equity interest of Changle Sunshine) in aggregate on their behalves. In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of the above-named seven other individuals and was authorised to exercise the aggregate voting rights in relation to this 50% equity interest in Changle Sunshine on behalf of these individuals at his discretion. After the transfer of interest by Changle Sunshine Employee Shareholding Association, the proportion of equity interest in Changle Sunshine held by the Shanghai Institute on behalf of the eight members of the Controlling Shareholder Group was adjusted, based on their respective capital contribution, in the following manner:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	788,328	13.93
王益瓏 (Mr. Wang Yilong)	526,931	9.31
吳蓉 (Ms. Wu Rong)	526,931	9.31
汪峰 (Mr. Wang Feng)	404,138	7.14
王永慶 (Mr. Wang Yongqing)	237,607	4.20
陸雨杰 (Mr. Lu Yujie)	94,865	1.68
李仲壽 (Mr. Li Zhongzhu)	132,988	2.35
郭建林 (Mr. Guo Jianlin)	118,212	2.08
<b>Total:</b>	<u><u>2,830,000</u></u>	<u><u>50.00</u></u>

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### *First amendment of trust arrangement of Xintiandi*

Pursuant to an amended and restated entrusted investment agreement (“Xintiandi Entrusted Investment Agreement II”) dated 2 May 2001 and entered into between Xintiandi and certain members of the Controlling Shareholder Group, namely 王東興 (Mr. Wang Dongxing), 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei) and 馬愛平 (Mr. Ma Aiping), the above-named individuals agreed to entrust Xintiandi to hold their equity interest in the amount of RMB2.83 million (representing 50% equity interest of Changle Sunshine) in aggregate on their behalf. In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of the above-named seven other individuals and was authorised to exercise the aggregate voting rights in relation to this 50% equity interest in Changle Sunshine on behalf of himself and these seven individuals at his discretion. After the transfer of interest by Changle Sunshine Employee Shareholding Association, the proportion of equity interest in Changle Sunshine held by Xintiandi on behalf of the eight members of the Controlling Shareholder Group was adjusted, based on their respective capital contributions, in the following manner:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
王東興 (Mr. Wang Dongxing)	1,403,600	24.80
桑自謙 (Mr. Sang Ziqian)	280,700	4.96
鄭法聖 (Mr. Zheng Fasheng)	215,900	3.81
桑永華 (Mr. Sang Yonghua)	269,900	4.77
陳效雋 (Mr. Chen Xiaojun)	230,100	4.07
孫清濤 (Mr. Sun Qingtao)	104,800	1.85
左希偉 (Mr. Zuo Xiwei)	187,000	3.30
馬愛平 (Mr. Ma Aiping)	138,000	2.44
Total:	<u>2,830,000</u>	<u>50.00</u>



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On 25 November 2003, 施衛新 (Mr. Shi Weixin) transferred 2.14% and 1.33% beneficial interest in Changle Sunshine held through Shanghai Institute to each of 李華 (Ms. Li Hua) and 胡剛 (Mr. Hu Gang) for a consideration of RMB121,124 and RMB75,278, respectively. The consideration of the transfer was determined based on the actual capital contributed by 施衛新 (Mr. Shi Weixin). On the same date, 王東興 (Mr. Wang Dongxing) transferred 1.60%, 1.60% and 0.27% beneficial interest in Changle Sunshine held through Xintiandi to each of 張增國 (Mr. Zhang Zengguo) 王長海 (Mr. Wang Changhai) and 胡剛 (Mr. Hu Gang) for a consideration of RMB90,560, RMB90,560 and RMB15,282, respectively. The consideration of the transfer was determined based on the actual capital contributed by 王東興 (Mr. Wang Dongxing). Upon completion of such transfers, the proportion of equity interest in Changle Sunshine held by each of the Shanghai Institute and Xintiandi became as follows:

### ***Shanghai Institute***

<b><u>Name</u></b>	<b><u>Capital contributed (RMB)</u></b>	<b><u>Equity Interest (%)</u></b>
施衛新 (Mr. Shi Weixin)	591,926	10.46
王益瓏 (Mr. Wang Yilong)	526,931	9.31
吳蓉 (Ms. Wu Rong)	526,931	9.31
汪峰 (Mr. Wang Feng)	404,138	7.14
王永慶 (Mr. Wang Yongqing)	237,607	4.20
陸雨杰 (Mr. Lu Yujie)	94,985	1.68
李仲騫 (Mr. Li Zhongzhu)	132,988	2.35
郭建林 (Mr. Guo Jianlin)	118,212	2.08
李華 (Ms. Li Hua)	121,124	2.14
胡剛 (Mr. Hu Gang)	75,278	1.33
<b>Total:</b>	<b><u>2,830,000</u></b>	<b><u>50.00</u></b>

### ***Xintiandi***

<b><u>Name</u></b>	<b><u>Capital contributed (RMB)</u></b>	<b><u>Equity Interest (%)</u></b>
王東興 (Mr. Wang Dongxing)	1,207,278	21.33
桑自謙 (Mr. Sang Ziqian)	280,700	4.96
鄭法聖 (Mr. Zheng Fasheng)	215,900	3.81
桑永華 (Mr. Sang Yonghua)	269,900	4.77
陳效雋 (Mr. Chen Xiaojun)	230,100	4.07
孫清濤 (Mr. Sun Qingtao)	104,800	1.85
左希偉 (Mr. Zuo Xiwei)	187,000	3.30
馬愛平 (Mr. Ma Aiping)	138,000	2.44
張增國 (Mr. Zhang Zengguo)	90,560	1.60
王長海 (Mr. Wang Changhai)	90,560	1.60
胡剛 (Mr. Hu Gang)	15,282	0.27
<b>Total:</b>	<b><u>2,830,000</u></b>	<b><u>50.00</u></b>

### **Increase of registered capital in Changle Sunshine in June 2004 (“First Capital Increase”)**

On 14 June 2004, the registered capital of Changle Sunshine was increased by RMB45 million, from RMB5.66 million to RMB50.66 million. According to the capital verification report issued by 濰坊普惠會計師事務所 (Weifang Puhui Certified Public Accountants) dated 27 April 2004, of the RMB45.0 million additional capital injected, RMB21.4 million was contributed by each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin), out of which RMB13.0 million was contributed by way of cash and the remaining RMB8.4 million by way of assets, and



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RMB11 million was contributed by each of Shanghai Institute and Xintiandi by way of asset injection. After the First Capital Increase, the registered capital of Changle Sunshine was contributed as to RMB3.93 million by each of Shanghai Institute and Xintiandi (representing approximately 7.76% equity interest each), and as to RMB21.4 million by each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) (representing a 42.24% equity interest each). The registered capital in Changle Sunshine was held by each of Shanghai Institute, Xintiandi and 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) in the following proportion:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	3,930,000	7.76
Xintiandi	3,930,000	7.76
王東興 (Mr. Wang Dongxing)	21,400,000	42.24
施衛新 (Mr. Shi Weixin)	21,400,000	42.24
<b>Total</b>	<b><u>50,660,000</u></b>	<b><u>100.00</u></b>

As Shanghai Institute and Xintiandi were in practice controlled by 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) respectively, 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) and the other members of the Controlling Shareholder Group who entrusted their beneficial interest to Shanghai Institute and Xintiandi respectively considered it more convenient for 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) to act on their behalf by making 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) direct shareholders of Changle Sunshine. Accordingly, when the members of the Controlling Shareholder Group decided to increase their investments in Changle Sunshine, the majority of the investment was injected through 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing). In addition, at the same time, several other individuals, namely, 李華 (Ms. Li Hua), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai), also decided to invest into Changle Sunshine by entrusting 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) to hold their investments in Changle Sunshine.

### *Second amendment of trust arrangement of Shanghai Institute*

Pursuant to an amended and restated entrusted investment agreement (“Shanghai Institute Entrusted Investment Agreement III”) dated 3 March 2004 and entered into between Shanghai Institute and certain members of the Controlling Shareholder Group, namely 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), 陸雨杰 (Mr. Lu Yujie), 李仲翥 (Mr. Li Zhongzhu) and 郭建林 (Mr. Guo Jianlin), in contemplation of the First Capital Increase, the proportion of equity interest in Changle Sunshine held by the Shanghai Institute on behalf of the following members of the Controlling Shareholder Group was adjusted, based on their respective capital contributions, as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	1,094,745	2.16
王益瓏 (Mr. Wang Yilong)	731,745	1.45
吳蓉 (Ms. Wu Rong)	731,745	1.45
汪峰 (Mr. Wang Feng)	561,223	1.11
王永慶 (Mr. Wang Yongqing)	329,963	0.65
陸雨杰 (Mr. Lu Yujie)	131,739	0.26
李仲翥 (Mr. Li Zhongzhu)	184,680	0.36
郭建林 (Mr. Guo Jianlin)	164,160	0.32
<b>Total:</b>	<b><u>3,930,000</u></b>	<b><u>7.76</u></b>

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In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of the above-named seven other individuals and was authorised to exercise the aggregate voting rights in relation to the 7.76% equity interest in Changle Sunshine on behalf of himself and these seven individuals at his discretion.

### *Second amendment of trust arrangement of Xintiandi*

Pursuant to an amended and restated entrusted investment agreement (“Xintiandi Entrusted Investment Agreement III”) dated 5 March 2004 and entered into between Xintiandi and certain members of the Controlling Shareholder Group, namely 王東興 (Mr. Wang Dongxing), 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei) and 馬愛平 (Mr. Ma Aiping), in contemplation of the First Capital Increase, the proportion of equity interest in Changle Sunshine held by Xintiandi on behalf of the following members of the Controlling Shareholder Group was adjusted, based on their respective capital contributions, as follows:

Name	Capital contributed (RMB)	Equity interest (%)
王東興 (Mr. Wang Dongxing)	1,949,169	3.85
桑自謙 (Mr. Sang Ziqian)	389,806	0.77
鄭法聖 (Mr. Zheng Fasheng)	299,819	0.59
桑永華 (Mr. Sang Yonghua)	374,808	0.74
陳效雋 (Mr. Chen Xiaojun)	319,538	0.63
孫清濤 (Mr. Sun Qingtao)	145,535	0.29
左希偉 (Mr. Zuo Xiwei)	259,685	0.51
馬愛平 (Mr. Ma Aiping)	191,640	0.38
Total:	<u>3,930,000</u>	<u>7.76</u>

In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of the above-named seven other individuals and was authorised to exercise the aggregate voting rights in relation to the 7.76% equity interest in Changle Sunshine on behalf of himself and these seven individuals at his discretion.

### *Trust arrangement of Mr. Shi Weixin*

Pursuant to an entrusted investment agreement (“Shi Weixin Entrusted Investment Agreement I”) dated 5 March 2004 and entered into between 施衛新 (Mr. Shi Weixin) and certain members of the Controlling Shareholder Group, namely, 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng), 王永慶 (Mr. Wang Yongqing), 陸雨杰 (Mr. Lu Yujie), 李仲翥 (Mr. Li Zhongzhu), 郭建林 (Mr. Guo Jianlin), 李華 (Ms. Li Hua) and 胡剛 (Mr. Hu Gang), in contemplation of the First Capital Increase, each of the above-named individuals agreed to further contribute capital in the amount of approximately RMB15.9 million in aggregate to invest in Changle Sunshine and entrusted 施衛新 (Mr. Shi Weixin) to hold such equity interest on his/her behalf. As a result of the trust arrangement, 施衛新 (Mr. Shi Weixin) held registered capital in the amount of approximately RMB21.4 million in aggregate in Changle Sunshine, of which approximately RMB5.5 million was held for himself and the balance of approximately RMB15.9 million was held on trust for the above-named nine other members of the Controlling Shareholder Group. In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of these nine members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 31.38% equity interest in Changle Sunshine held on trust at his discretion.

## HISTORY AND DEVELOPMENT

The proportion of beneficial interest in Changle Sunshine held by Mr. Shi Weixin on behalf of himself and on trust for other members of the Controlling Shareholder Group were as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	5,502,569	10.86
王益瓏 (Mr. Wang Yilong)	3,678,004	7.25
吳蓉 (Ms. Wu Rong)	3,678,004	7.25
汪峰 (Mr. Wang Feng)	2,820,906	5.57
王永慶 (Mr. Wang Yongqing)	1,658,508	3.28
陸雨杰 (Mr. Lu Yujie)	662,167	1.31
李仲翥 (Mr. Li Zhongzhu)	928,267	1.84
郭建林 (Mr. Guo Jianlin)	825,125	1.63
李華 (Ms. Li Hua)	1,013,200	2.00
胡剛 (Mr. Hu Gang)	633,250	1.25
Total:	<u>21,400,000</u>	<u>42.24</u>

### *Trust arrangement of Mr. Wang Dongxing*

Pursuant to an entrusted investment agreement (“Wang Dongxing Entrusted Investment Agreement I”) dated 3 March 2004 and entered into between 王東興 (Mr. Wang Dongxing) and certain members of the Controlling Shareholder Group, namely, 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei), 馬愛平 (Mr. Ma Aiping), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai), in contemplation of the First Capital Increase, each of the above-named individuals agreed to further contribute capital in the amount of approximately RMB11.6 million in aggregate to invest in Changle Sunshine and entrusted 王東興 (Mr. Wang Dongxing) to hold such equity interest on his behalf. As a result of the trust arrangement, 王東興 (Mr. Wang Dongxing) held registered capital in the amount of approximately RMB21.4 million in aggregate in Changle Sunshine, of which approximately RMB9.8 million was held for himself and the balance of approximately RMB11.6 million was held on trust for the above-named ten other members of the Controlling Shareholder Group. In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of the above-named ten other members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 22.91% equity interest in Changle Sunshine held on trust at his discretion.

## HISTORY AND DEVELOPMENT

The proportion of beneficial interest in Changle Sunshine held by 王東興 (Mr. Wang Dongxing) on behalf of himself and on trust for other members of the Controlling Shareholder Group were as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
王東興 (Mr. Wang Dongxing)	9,797,203	19.33
桑自謙 (Mr. Sang Ziqian)	1,959,301	3.87
鄭法聖 (Mr. Zheng Fasheng)	1,506,993	2.98
桑永華 (Mr. Sang Yonghua)	1,883,916	3.72
陳效雋 (Mr. Chen Xiaojun)	1,606,110	3.17
孫清濤 (Mr. Sun Qingtao)	731,510	1.44
左希偉 (Mr. Zuo Xiwei)	1,305,270	2.58
馬愛平 (Mr. Ma Aiping)	963,247	1.90
胡剛 (Mr. Hu Gang)	126,650	0.25
張增國 (Mr. Zhang Zengguo)	759,900	1.5
王長海 (Mr. Wang Changhai)	759,900	1.5
<b>Total:</b>	<b><u>21,400,000</u></b>	<b><u>42.24</u></b>

### **Increase of registered capital in Changle Sunshine in August 2005 (“Second Capital Increase”)**

On 26 August 2005, the registered capital of Changle Sunshine was further increased by RMB20.0 million, from RMB50.66 million to RMB70.66 million. Pursuant to a capital verification report issued by 濰坊普惠會計師事務所 (Weifang Puhui Certified Public Accountants) dated 19 July 2005, of the RMB20.0 million increase in capital, RMB10.0 million was contributed by each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) by way of cash. After the Second Capital Increase, the registered capital of Changle Sunshine was contributed as to RMB3.93 million by each of Shanghai Institute and Xintiandi (representing approximately 5.56% equity interest each), and as to RMB31.4 million by each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) (representing a 44.44% equity interest each). The registered capital in Changle Sunshine was held by each of Shanghai Institute, Xintiandi and 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) in the following proportion:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	3,930,000	5.56
Xintiandi	3,930,000	5.56
王東興 (Mr. Wang Dongxing)	31,400,000	44.44
施衛新 (Mr. Shi Weixin)	31,400,000	44.44
	<b><u>70,660,000</u></b>	<b><u>100.00</u></b>

### *First amendment of trust arrangement of Mr. Shi Weixin*

Pursuant to an amended and restated entrusted investment agreement 施衛新 (“Shi Weixin Entrusted Investment Agreement II”) dated 25 May 2005 and entered into between 施衛新 (Mr. Shi Weixin) and certain members of the Controlling Shareholder Group, namely, 王益瓏 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng), 王永慶 (Mr. Wang Yongqing), 陸雨杰 (Mr. Lu Yujie), 李仲鸞 (Mr. Li Zhongzhu), 郭建林 (Mr. Guo Jianlin), 李華 (Ms. Li Hua) and 胡剛 (Mr. Hu Gang), in contemplation of the Second Capital Increase, each of the above-named individuals agreed to further contribute capital in the amount of approximately RMB7.4 million in aggregate to invest in Changle Sunshine and entrusted 施衛新 (Mr. Shi Weixin) to hold such equity interest on his/her behalf. As a result of the trust arrangement, of

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the RMB10.0 million increase in capital, 施衛新 (Mr. Shi Weixin) held registered capital of approximately RMB2.6 million for himself and the balance of approximately RMB7.4 million was held on trust for the above-named nine other members of the Controlling Shareholder Group. In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of these nine members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 32.97% equity interest in Changle Sunshine held on trust at his discretion.

After the Second Capital Increase, in respect of the registered capital of RMB31.4 million held by Mr. Shi Weixin, approximately RMB8.11 million was held for himself and the balance of registered capital of RMB23.29 million was held on trust for the following members of the Controlling Shareholder Group set out below:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	8,107,114	11.47
王益瓏 (Mr. Wang Yilong)	5,418,924	7.66
吳蓉 (Ms. Wu Rong)	5,418,924	7.66
汪峰 (Mr. Wang Feng)	4,156,132	5.89
王永慶 (Mr. Wang Yongqing)	2,443,534	3.46
陸雨杰 (Mr. Lu Yujie)	975,592	1.39
李仲鸞 (Mr. Li Zhongzhu)	1,367,646	1.94
郭建林 (Mr. Guo Jianlin)	1,215,684	1.72
李華 (Ms. Li Hua)	1,413,200	2.00
胡剛 (Mr. Hu Gang)	883,250	1.25
Total:	<u>31,400,000</u>	<u>44.44</u>

### *First amendment of trust arrangement of Mr. Wang Dongxing*

Pursuant to an amended and restated entrusted investment agreement (“Wang Dongxing Entrusted Investment Agreement II”) dated 20 May 2005 and entered into between 王東興 (Mr. Wang Dongxing) and certain members of the Controlling Shareholder Group, namely, 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei), 馬愛平 (Mr. Ma Aiping), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai), in contemplation of the Second Capital Increase, each of the above-named individuals agreed to further contribute capital in the amount of approximately RMB5.36 million in aggregate to invest in Changle Sunshine and entrusted 王東興 (Mr. Wang Dongxing) to hold such equity interest on his/her behalf. As a result of the trust arrangement, of the RMB10.0 million increase in capital, 王東興 (Mr. Wang Dongxing) held registered capital of approximately RMB4.64 million for himself and the balance of approximately RMB5.36 million was held on trust for the above-named ten other members of the Controlling Shareholder Group. In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of these ten members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 24.02% equity interest in Changle Sunshine held on trust at his discretion.

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After the Second Capital Increase, in respect of the registered capital of RMB31.4 million held by Mr. Wang Dongxing, approximately RMB14.43 million was held for himself and the balance of registered capital of approximately RMB16.97 million was held on trust for the following members of the Controlling Shareholder Group set out below:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
王東興 (Mr. Wang Dongxing)	14,434,538	20.42
桑自謙 (Mr. Sang Ziqian)	2,886,702	4.09
鄭法聖 (Mr. Zheng Fasheng)	2,220,303	3.15
桑永華 (Mr. Sang Yonghua)	2,775,635	3.93
陳效雋 (Mr. Chen Xiaojun)	2,366,334	3.35
孫清濤 (Mr. Sun Qingtao)	1,077,757	1.52
左希偉 (Mr. Zuo Xiwei)	1,923,097	2.72
馬愛平 (Mr. Ma Aiping)	1,419,184	2.01
胡剛 (Mr. Hu Gang)	176,650	0.25
張增國 (Mr. Zhang Zengguo)	1,059,900	1.5
王長海 (Mr. Wang Changhai)	1,059,900	1.5
Total:	<u>31,400,000</u>	<u>44.44</u>

### *Transfer of interest by Xintiandi*

Pursuant to an equity transfer agreement dated 16 January 2006 and entered into between Xintiandi and 王東興 (Mr. Wang Dongxing), Xintiandi transferred its interest in RMB3.93 million in the registered capital of Changle Sunshine to Mr. Wang Dongxing at a consideration of RMB3.93 million payable in cash. Upon completion of such transfer, the shareholding structure of Changle Sunshine was as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	3,930,000	5.56
王東興 (Mr. Wang Dongxing)	35,330,000	50.00
施衛新 (Mr. Shi Weixin)	31,400,000	44.44
	<u>70,660,000</u>	<u>100.00</u>



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### *Second amendment of trust arrangement of Mr. Wang Dongxing*

As evidenced by an amended and restated entrusted investment agreement (“Wang Dongxing Entrusted Investment Agreement III”) dated 10 January 2006 and entered into between certain members of the Controlling Shareholder Group, namely 王東興 (Mr. Wang Dongxing) and 桑自謙 (Mr. Sang Ziqian), 鄭法聖 (Mr. Zheng Fasheng), 桑永華 (Mr. Sang Yonghua), 陳效雋 (Mr. Chen Xiaojun), 孫清濤 (Mr. Sun Qingtao), 左希偉 (Mr. Zuo Xiwei), 馬愛平 (Mr. Ma Aiping), 胡剛 (Mr. Hu Gang), 張增國 (Mr. Zhang Zengguo) and 王長海 (Mr. Wang Changhai), each of the above-named individuals agreed to entrust 王東興 (Mr. Wang Dongxing) to hold such equity interest on his/her behalf. In addition, 王東興 (Mr. Wang Dongxing) was nominated as the representative of these ten members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 26.82% equity interest in Changle Sunshine held on trust at his discretion. As a result of the trust arrangement, the interest in Changle Sunshine held by Mr. Wang Dongxing in his personal capacity and on behalf of these other ten members of the Controlling Shareholder Group were as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
王東興 (Mr. Wang Dongxing)	16,383,707	23.18
桑自謙 (Mr. Sang Ziqian)	3,276,508	4.64
鄭法聖 (Mr. Zheng Fasheng)	2,520,121	3.57
桑永華 (Mr. Sang Yonghua)	3,150,444	4.46
陳效雋 (Mr. Chen Xiaojun)	2,685,873	3.80
孫清濤 (Mr. Sun Qingtao)	1,223,292	1.73
左希偉 (Mr. Zuo Xiwei)	2,182,782	3.09
馬愛平 (Mr. Ma Aiping)	1,610,823	2.28
胡剛 (Mr. Hu Gang)	176,650	0.25
張增國 (Mr. Zhang Zengguo)	1,059,900	1.50
王長海 (Mr. Wang Changhai)	1,059,900	1.50
Total:	<u>35,330,000</u>	<u>50.00</u>

### *Transfer of interest by Shanghai Institute*

Pursuant to an equity transfer agreement dated 13 February 2006 and entered into between Shanghai Institute and 施衛新 (Mr. Shi Weixin), Shanghai Institute transferred its interest in RMB3.93 million of the registered capital of Changle Sunshine to Mr. Shi Weixin at a consideration of RMB3.93 million payable in cash. Upon completion of such transfer, the shareholding structure of Changle Sunshine was as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Mr. Wang Dongxing	35,330,000	50.00
Mr. Shi Weixin	35,330,000	50.00
Total	<u>70,660,000</u>	<u>100.00</u>

### *Second amendment of trust arrangement of Mr. Shi Weixin*

As evidenced by an amended and restated entrusted investment agreement (“Shi Weixin Entrusted Investment Agreement III”) dated 10 February 2006 and entered into between certain members of the Controlling Shareholder Group, namely 施衛新 (Mr. Shi Weixin) and 王益龍 (Mr. Wang Yilong), 吳蓉 (Ms. Wu Rong), 汪峰 (Mr. Wang Feng), 王永慶 (Mr. Wang Yongqing), 陸雨杰 (Mr. Lu Yujie), 李仲翥 (Mr. Li Zhongzhu), 郭建林 (Mr. Guo Jianlin), 李華



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(Ms. Li Hua) and 胡剛 (Mr. Hu Gang), each of the above-named individuals agreed to entrust 施衛新 (Mr. Shi Weixin) to hold such equity interest on his/her behalf. In addition, 施衛新 (Mr. Shi Weixin) was nominated as the representative of these nine members of the Controlling Shareholder Group and was authorised to exercise the aggregate voting rights in respect of this 36.98% equity interest in Changle Sunshine at his direction. As a result of the trust arrangement, the interest in Changle Sunshine held by Mr. Shi Weixin in his personal capacity and on behalf of the these other nine members of the Controlling Shareholder Group were as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
施衛新 (Mr. Shi Weixin)	9,201,899	13.02
王益瓏 (Mr. Wang Yilong)	6,150,669	8.70
吳蓉 (Ms. Wu Rong)	6,150,669	8.70
汪峰 (Mr. Wang Feng)	4,717,355	6.68
王永慶 (Mr. Wang Yongqing)	2,773,497	3.93
陸雨杰 (Mr. Lu Yujie)	1,107,331	1.57
李仲騫 (Mr. Li Zhongzhu)	1,552,326	2.20
郭建林 (Mr. Guo Jianlin)	1,379,844	1.95
李華 (Ms. Li Hua)	1,413,200	2.00
胡剛 (Mr. Hu Gang)	883,250	1.25
<b>Total:</b>	<b><u>35,330,000</u></b>	<b><u>50.00</u></b>

### *Legality of the trust arrangements*

The PRC legal advisers of the Company have confirmed that all the trust arrangements relating to each of Xintiandi, Shanghai Institute, Mr. Wang Dongxing and Mr. Shi Weixin, including the various amendments, were valid and legal under PRC law.

### *Transfer of interest to Sunshine Paper*

As part of the Reorganisation, 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) (as vendors) and Sunshine Paper (as purchaser) entered into an equity transfer agreement dated 16 April 2006, pursuant to which 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) transferred the 100% equity interest in Changle Sunshine to Sunshine Paper for a total consideration of approximately RMB73.37 million, which was the net asset value of Changle Sunshine as at 31 July 2005 as determined by 濰坊普惠會計師事務所 (Weifang Puhui Certified Public Accountants). The consideration was satisfied by cash from the proceeds of the issue of the 2006 Convertible Bonds. Upon completion of such transfer, Changle Sunshine was 100% held by Sunshine Paper. Pursuant to an approval document numbered “濰外經貿外資字(2006)第233號” ((2006) Wei Wai Jing Mao Wai Zi No. 233) issued by 濰坊市對外貿易經濟合作局 (Bureau of Foreign Trade and Economic Cooperation of Weifang) dated 25 May 2006, Changle Sunshine was approved to become a wholly-foreign owned enterprise. In addition, the total investment amount and registered capital of Changle Sunshine became approximately US\$21.95 million and approximately US\$8.81 million, respectively.

### **Further increase of registered capital in 2006 and 2007 (“Subsequent Capital Increase”)**

Pursuant to an approval document numbered “濰外經貿外資字(2006)第384號” ((2006) Wei Wai Jing Mao Wai Zi No. 384) issued by 濰坊市對外貿易經濟合作局 (Weifang Bureau of Foreign Trade and Economic Cooperation) dated 2 August 2006, the total investment amount and registered capital of Changle Sunshine was further increased to approximately US\$36.95 million and approximately US\$12.39 million, respectively. The increase in registered capital of

approximately US\$3.58 million was contributed by Sunshine Paper from the proceeds of the issue of the 2006 Convertible Bonds.

In order for Changle Sunshine to enjoy certain tax benefits only available to Sino-foreign joint venture enterprises, Weidong Chemical, a PRC domestic company which was then held as to 50% by each of 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing), decided to invest into Changle Sunshine. Pursuant to an approval document numbered “滬外經貿外資字(2006)第494號” ((2006) Wei Wai Jing Mao Wai Zi No. 494) issued by 濰坊市對外貿易經濟合作局 (Weifang Bureau of Trade and Economic Cooperation) dated 29 September 2006, the registered capital of Changle Sunshine was further increased to approximately US\$12.4 million. The increase in registered capital of approximately US\$1.24 million was contributed by Weidong Chemical by way of cash. Upon such increase of registered capital, Changle Sunshine became a Sino-foreign joint-venture enterprise which was held as to approximately 99.9% by Sunshine Paper and as to approximately 0.1% by Weidong Chemical.

Pursuant to an approval document numbered “滬外經貿外資字(2007)第228號” ((2006) Wei Wai Jing Mao Wai Zi No. 228) issued by 濰坊市貿易經濟合作局 (Weifang Bureau of Trade and Economic Cooperation) dated 11 June 2007, the total investment amount and registered capital of Changle Sunshine were increased to approximately US\$49.95 million and approximately US\$20.31 million, respectively. The increase in registered capital of approximately US\$7.91 million was contributed by each of Sunshine Paper and Weidong Chemical in proportion to their respective interests in Changle Sunshine, both by way of cash. The capital contributed by Sunshine Paper was from the proceeds of the issue of the 2007 Convertible Bonds. For details, please refer to the paragraph headed “Financial Investors” in this section below.

Pursuant to an approval document numbered “滬外經貿外資字(2007)第290號” ((2007) Wei Wai Jing Mao Wai Zi No. 290) issued by 濰坊市貿易經濟合作局 (Weifang Bureau of Trade and Economic Cooperation) dated 13 July 2007, the total investment amount and registered capital of Changle Sunshine were further increased to approximately US\$79.92 million and approximately US\$33.4 million, respectively. The increase in registered capital of approximately US\$13.09 million was contributed by each of Sunshine Paper and Weidong Chemical in proportion to their respective interests in Changle Sunshine, both by way of cash. The capital contributed by Sunshine Paper was from the proceeds of the issue of the 2007 Convertible Bonds. To avoid any potential competition after the Listing, on 20 August 2007, each of Mr. Wang Dongxing and Mr. Shi Weixin transferred his respective 50% equity interest in Weidong Chemical to 王呈軍 (Mr. Wang Chengjun), an employee of the Group and currently the head of the securities department of the Group, at a consideration of RMB159,350 each (i.e., for an aggregate consideration of RMB318,700). 王呈軍 (Mr. Wang Chengjun) paid such consideration by cash from his own funds. 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) decided to transfer their interests in Weidong Chemical to 王呈軍 (Mr. Wang Chengjun) because they are personal friends and have known each other for many years, and both 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) believed 王呈軍 (Mr. Wang Chengjun) could further develop the business of Weidong Chemical in the future. The consideration of RMB318,700 was determined based on 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) holds 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).

### *Transfer of interest to Ramble Paper*

As part of the Reorganisation, pursuant to a sale and purchase agreement dated 3 September 2007 and entered into between Sunshine Paper and Ramble Paper, Ramble Paper acquired the 99.9% equity interest in Changle Sunshine held by Sunshine Paper for a consideration of US\$1.00.

## **2. Changdong Paper Recovery**

Changdong Paper Recovery was established by Changle Sunshine in January 2006 with a registered capital of RMB246,600. It is wholly owned by Changle Sunshine and is engaged in the business of waste paper trading (廢紙購銷).

## **3. Rainbow Packaging**

Rainbow Packaging was established in May 2003 with a registered capital of RMB3.4 million and is principally engaged in the production and sale of paper box, paper board and packaging materials and sales of paper-making material. At the time of establishment, its registered capital was RMB3.4 million, and was held as to 76% by Changle Sunshine (RMB2.6 million) and as to 12% (RMB400,000) by each of 吳蓉 (Ms. Wu Rong) and 鄭法聖 (Mr. Zheng Fasheng). Pursuant to an entrusted shareholding agreement (委託持股協議) dated 13 May 2003 and entered into between 山東省濰坊市昌樂縣昌樂鎮人民政府 (the People's Government of Changle Town, Changle County, Weifang City, Shandong Province of the PRC) ("Changle Town Government") and 鄭法聖 (Mr. Zheng Fasheng), the interest in the registered capital of RMB400,000 in Rainbow Packaging held by 鄭法聖 (Mr. Zheng Fasheng) was held on behalf of Changle Town Government. Due to its lack of experience in the paper manufacturing industry, Changle Town Government entrusted 鄭法聖 (Mr. Zheng Fasheng), who was experienced in the paper manufacturing industry and the legal representative of Rainbow Packaging, to hold the interests in the registered capital in Rainbow Packaging on trust for the Changle Town Government and to exercise the shareholder rights according to its instructions. Changle Town Government considered such an arrangement would facilitate easier administration and management of its interests in Rainbow Packaging. Pursuant to the said entrusted shareholding agreement, Changle Town Government assumed the investment risk and is entitled to all economic benefits derived from its investment in Rainbow Packaging, while 鄭法聖 (Mr. Zheng Fasheng) exercised all shareholders' rights according to Changle Town Government's instructions. 鄭法聖 (Mr. Zheng Fasheng) does not have any relationship with Changle Town Government. Mr. Zheng was a representative of the labour union of Changle Sunshine. In such capacity, he had communications with Changle Town Government on behalf of the labour union of Changle Sunshine on various occasions. Through these communications, trust was developed between Changle Town Government and 鄭法聖 (Mr. Zheng Fasheng). As such, Changle Town Government nominated 鄭法聖 (Mr. Zheng Fasheng) to hold the equity interests in Rainbow Packaging on trust on its behalf.

The PRC legal advisers of the Company have confirmed that the trust arrangements relating to 鄭法聖 (Mr. Zheng Fasheng) and Changle Town Government mentioned above are valid and legal under PRC law.

At the time of establishment, it was intended that Rainbow Packaging would develop a new line of business, namely the production of packaging paper boxes for consumer goods (primarily food stuff). However, in August 2004, the board of Changle Sunshine decided to focus on the development of the domestic and international markets for white top linerboard and the research and development of light-coated linerboard and concluded that it would be

beneficial for the future business development of Rainbow Packaging if it were separately managed by others. As a result, Changle Sunshine transferred its entire interest in Rainbow Packaging to 桑永華 (Mr. Sang Yonghua) (as to RMB1.6 million) and to 鄭法聖 (Mr. Zheng Fasheng) (as to RMB1.0 million) for a consideration of RMB1.6 million and RMB1.0 million respectively, which amounts equal the respective amounts paid up on the equity interest transferred. At the same time, 桑永華 (Mr. Sang Yonghua) further injected RMB2.0 million into Rainbow Packaging. Upon completion of such transfers and capital increase, the registered capital of Rainbow Packaging became RMB5.4 million and was held as to RMB3.6 million (representing approximately 66.67% of its equity interest) by 桑永華 (Mr. Sang Yonghua), as to RMB1.4 million (representing 25.92% of its equity interest) by 鄭法聖 (Mr. Zheng Fasheng) and as to RMB400,000 (representing approximately 7.41% equity interest) by Ms. Wu Rong. Out of approximately 25.92% of the equity interest in Rainbow Packaging held by 鄭法聖 (Mr. Zheng Fasheng), RMB1.0 million (representing approximately 14.8% of its equity interest) was held for himself and the balance of RMB400,000 (representing approximately 11.12% of its equity interest) was held on behalf of Changle Town Government, pursuant to an entrusted shareholding agreement (委託持股協議) dated 5 August 2004. The terms of such entrusted shareholding agreement are identical to that of the entrusted shareholding agreement dated 13 May 2003 except that the beneficial interest held by the Changle Town Government was increased to RMB600,000.

In February 2006, as a result of the increased production of white top linerboard and the synergy with the packaging business of Rainbow Packaging (for instance, the non-saleable output of Changle Sunshine could be used by Rainbow Packaging as its raw materials), the board of Changle Sunshine decided to reacquire Rainbow Packaging, and each of 吳蓉 (Ms. Wu Rong), 鄭法聖 (Mr. Zheng Fasheng) and 桑永華 (Mr. Sang Yonghua) transferred their respective interest in the registered capital of Rainbow Packaging in the amount of RMB400,000, RMB1.4 million and RMB3.0 million, respectively, to Changle Sunshine. The consideration paid by Changle Sunshine to 吳蓉 (Ms. Wu Rong), 桑永華 (Mr. Sang Yonghua) and 鄭法聖 (Mr. Zheng Fasheng) was RMB400,000, RMB3.0 million and RMB1.4 million, respectively. The consideration for each such transfer was equivalent to the registered capital transferred. At the same time, 桑永華 (Mr. Sang Yonghua) also transferred his interest in RMB600,000 of the registered capital of Rainbow Packaging to 田保德 (Mr. Tian Baode).

Pursuant to a trust agreement (“Trust Agreement”) dated 19 February 2006 and entered into between 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office) and Tian Baode, the interest in RMB600,000 of the registered capital in Rainbow Packaging held by Tian Baode was held on trust for 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office) for the purpose of keeping Rainbow Packaging as a welfare enterprise (福利企業). Such capital was contributed by Changle County Baocheng Street Office. 田保德 (Mr. Tian Baode) was a representative of the labor union of Changle Sunshine, a self-regulatory organization established by the workers of Changle Sunshine. In such capacity, he had communications with Changle County Baocheng Street Office on behalf of the labor union of Changle Sunshine on various occasions. Through these communications, trust was developed between Changle County Baocheng Street Office and 田保德 (Mr. Tian Baode). As such, Changle County Baocheng Street Office nominated 田保德 (Mr. Tian Baode) to hold the equity interests in Rainbow Packaging on trust on its behalf. In addition, 田保德 (Mr. Tian Baode) would not enjoy the right to receive dividends or bear the risk of loss arising from his holding of the interest in Rainbow Packaging on trust for Changle County Baocheng Street Office. According to the laws and regulations concerning welfare enterprises issued by the Ministry of Finance and the State Administration of Taxation in 1994 and 2000, amongst other requirements, an enterprise with over 35% of its employees with disabilities may be qualified as a welfare enterprise. Under the new laws and regulations promulgated in 2007,

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the proportion required of employees with disabilities was reduced to 25%, but an additional requirement was added that all of these employees be employed under contracts of over one year. As confirmed by the PRC legal advisers of the Company, Rainbow Packaging is in compliance with the requirements under the laws and regulations concerning welfare enterprises. Rainbow Packaging is qualified as a welfare enterprise pursuant to an approval document numbered “福企証字第 37000074005 號” issued by 山東省民政廳 (Civil Affairs Office of Shandong Province) in 2003 which was renewed in 2007.

### 4. Kunshan Sunshine

Kunshan Sunshine was established in April 2004 under the name 昆山上控電氣有限公司 (Kunshan Shangkong Electric Co., Ltd.) (“Kunshan Shangkong”) and was principally engaged in the production and processing of electrical equipment and instruments, computer-controlled products and adhesive mounts. At the time of establishment, its registered capital was RMB3.0 million which was held by Shanghai Institute and members of the Controlling Shareholder Group, as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
Shanghai Institute	2,000,000	66.67
施衛新 (Mr. Shi Weixin)	278,600	9.29
王益瓏 (Mr. Wang Yilong)	186,200	6.20
吳蓉 (Ms. Wu Rong)	186,200	6.20
汪峰 (Mr. Wang Feng)	142,800	4.76
王永慶 (Mr. Wang Yongqing)	83,900	2.80
李仲翥 (Mr. Li Zhongzhu)	47,000	1.57
郭建林 (Mr. Guo Jianlin)	41,800	1.39
陸雨杰 (Mr. Lu Yujie)	33,500	1.12
Total:	<u>3,000,000</u>	<u>100.00</u>

In March 2005, Changle Sunshine contributed RMB7.0 million to Kunshan Shangkong, and the registered capital of Kunshan Shangkong was increased by the same amount. As a result of such capital increase, Changle Sunshine became the owner of 70% of the equity interest of Kunshan Shangkong.

In July 2005, each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) contributed RMB6.0 million to Kunshan Shangkong. At the same time, (a) Shanghai Institute transferred: (i) RMB1.0 million of the registered capital in Kunshan Sunshine to 王東興 (Mr. Wang Dongxing) for a consideration of RMB1.0 million; (ii) RMB186,200 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for consideration of RMB186,200; and (iii) RMB813,800 of the registered capital in Kunshan Sunshine to 吳蓉 (Ms. Wu Rong) for a consideration of 813,800; (b) 陸雨杰 (Mr. Lu Yujie) transferred RMB33,500 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for a consideration of RMB33,500; (c) 王益瓏 (Mr. Wang Yilong) transferred RMB186,200 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for a consideration of RMB186,200; (d) 汪峰 (Mr. Wang Feng) transferred RMB142,800 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for consideration of RMB142,800; (e) 王永慶 (Mr. Wang Yongqing) transferred RMB83,900 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for a consideration of RMB83,900; (f) 李仲翥 (Mr. Li Zhongzhu) transferred RMB47,000 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for a consideration of RMB47,000; and (g) 郭建林 (Mr. Guo Jianlin) transferred RMB41,800 of the registered capital in Kunshan Sunshine to 施衛新 (Mr. Shi Weixin) for a consideration of RMB41,800. The consideration of all the above-mentioned transfers was determined by reference to the amount of registered capital being



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transferred. Upon completion of such capital increase and transfers, the registered capital of Kunshan Shangkong was increased to RMB20.0 million, and was held as to 35% (RMB7.0 million) by Changle Sunshine, 30% (RMB6.0 million) by each of 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) and 5% (RMB1.0 million) by 吳蓉 (Ms. Wu Rong).

In February 2006, 王東興 (Mr. Wang Dongxing) and 吳蓉 (Ms. Wu Rong) transferred their respective equity interest in Kunshan Shangkong to Changle Sunshine. Upon completion of such transfer, Kunshan Shangkong was held as to 70% (RMB14.0 million) by Changle Sunshine and as to 30% (RMB6.0 million) by 施衛新 (Mr. Shi Weixin).

Pursuant to a shareholders' resolution dated 3 March 2006, the name of Kunshan Shangkong was changed to Kunshan Sunshine.

The interest in RMB6.0 million of the registered capital of Kunshan Sunshine held by 施衛新 (Mr. Shi Weixin) was transferred to Sunshine Paper in June 2006. As a result of such transfer, Kunshan Sunshine became a foreign invested enterprise.

### 5. Shenyi Transportation

Shenyi Transportation was established in February 2004 by 26 individuals with a registered capital of RMB3.44 million. It is engaged in general cargo transportation and domestic and international container (集裝箱) transportation. Out of the 26 individuals, 10 were members of the Controlling Shareholder Group holding in aggregate 28.82% of the equity interest in Shenyi Transportation, and the balance of 71.18% was held by the remaining 16 individuals whom, to the best knowledge and belief of the Directors, were not acting in concert with each other and were holding such interest for themselves and not on trust for any other person. Out of these 16 individuals, 陳少美 (Ms. Chen Shaomei) is the wife of 王東興 (Mr. Wang Dongxing), 王思波 (Mr. Wang Sibao) is a brother of 王東興 (Mr. Wang Dongxing) and the remaining 14 individuals were employees of the Group. Among these 16 individuals, 陳少美 (Ms. Chen Shaomei) had the largest equity interest in Shenyi Transportation of 14.556%. Details of the equity interest in Shenyi Transportation of the 10 members of the Controlling Shareholder Group were as follows:

<u>Name</u>	<u>Capital contributed (RMB)</u>	<u>Equity interest (%)</u>
汪峰 (Mr. Wang Feng)	300,000	8.73
左希偉 (Mr. Zuo Xiwei)	160,000	4.66
桑自謙 (Mr. Sang Ziqian)	140,000	4.07
張增國 (Mr. Zhang Zengguo)	90,000	2.62
王長海 (Mr. Wang Changhai)	60,000	1.75
孫清濤 (Mr. Sun Qingtao)	60,000	1.75
鄭法聖 (Mr. Zheng Fasheng)	60,000	1.75
胡剛 (Mr. Hu Gang)	50,000	1.46
桑永華 (Mr. Sang Yonghua)	40,000	1.16
馬愛平 (Mr. Ma Aiping)	30,000	0.87
Total:	<u>990,000</u>	<u>28.82</u>

In March 2006, all 26 individual shareholders of Shenyi Transportation other than 王思波 (Mr. Wang Sibao), a brother of 王東興 (Mr. Wang Dongxing), disposed of their respective equity interest in Shenyi Transportation at a consideration of RMB1.198 for every RMB1.00 in the registered capital in Shenyi Transportation. The consideration was determined by reference to the total net value of assets in Shenyi Transportation as at 31 December 2005, stated in the asset valuation report dated 2 March 2006 issued by 濰坊普惠會計師事務所 (Weifang Puhui

Certified Public Accountants). Upon completion of such disposal, Shenyi Transportation was held as to approximately 51.24% (RMB1.76 million) by Changle Sunshine, as to approximately 36.537% (approximately RMB1.26 million) by 王思波 (Mr. Wang Sibo) and as to the balance of approximately 12.23% (RMB420,000) by 夏連寶 (Mr. Xia Lianbao), an Independent Third Party.

In September 2006, pursuant to a shareholders' resolution, Changle Sunshine and 王思波 (Mr. Wang Sibo) increased their contribution to the registered capital of Shengyi Transportation to approximately RMB4.52 million and approximately RMB3.88 million, respectively. As a result of such capital increase, Shenyi Transportation was held as to approximately 51.24% by Changle Sunshine, approximately 44% by 王思波 (Mr. Wang Sibo) and approximately 4.76% by 夏連寶 (Mr. Xia Lianbao).

In respect of the 44% equity interest in Shenyi Transportation held by 王思波 (Mr. Wang Sibo), approximately 1.34% was held for himself in his personal capacity and the balance of approximately 42.67% interest was held on behalf of others. Pursuant to various agency agreements dated 1 October 2006 and entered into between Mr. Wang Sibo and 66 individuals, all of which are Independent Third Parties (except for 陸雨中 (Mr. Lu Yuzhong), a brother of 陸雨傑 (Mr. Lu Yujie), who is a member of the Controlling Shareholder Group). 王思波 (Mr. Wang Sibo) was nominated as the representative of the 66 individuals and was authorised to exercise the aggregate voting rights in relation to this 42.67% equity interest in Shenyi Transportation on behalf of these individuals. Nevertheless, pursuant to these agreements, in exercising the voting rights in Shenyi Transportation held for others, 王思波 (Mr. Wang Sibo) must obtain prior written approval from the 66 individuals mentioned above.

The 4.76% equity interest in Shenyi Transportation held by 夏連寶 (Mr. Xia Lianbao) was held on trust on behalf of seven individuals as an agent. Pursuant to various agreements all dated 1 October 2006 and entered into between 夏連寶 (Mr. Xia Lianbao) with these seven individuals, all of which are Independent Third Parties, 夏連寶 (Mr. Xia Lianbao) was nominated as the representative of these seven individuals and was authorised to exercise the aggregate voting rights in relation to this 4.76% equity interest in Shenyi Transportation. Pursuant to these agreements, in exercising of such voting rights, 夏連寶 (Mr. Xia Lianbao) must obtain prior written approval from the individuals mentioned above.

The PRC legal advisers of the Company have confirmed that all the trust arrangements relating to 王思波 (Mr. Wang Sibo) and 夏連寶 (Mr. Xia Lianbao) mentioned above are valid and legal under PRC law.

## 6. Shengshi Thermoelectricity

Shengshi Thermoelectricity was established in October 2003 with a registered capital of RMB20.0 million. Its scope of business is to supply steam and electricity to its shareholders. At the time of its establishment, Shengshi Thermoelectricity was held as to 40% by Weifang Investment and as to 30% by each of Changle Sunshine and Shengtai Medicine. Pursuant to a shareholders' resolution of Shengshi Thermoelectricity dated 12 April 2005, its registered capital was increased to approximately RMB48.75 million, in which approximately RMB29.25 million (representing 60% of its equity interest) was contributed by Weifang Investment and each of Changle Sunshine and Shengtai Medicine has contributed approximately RMB9.75 million (representing 20% of its equity interest).

On 26 June 2007, the registered capital of Shengshi Thermoelectricity was further increased to approximately RMB89.25 million, with each of Shengtai Medicine, Changle Sunshine and Weifang Investment contributing approximately RMB8.1 million, approximately RMB8.1 million and approximately RMB24.3 million, respectively. Pursuant to a capital



verification report issued by 昌樂正方有限責任會計師事務所 (Changle Zhengfang Certified Public Accountants Firm Limited) dated 20 June 2007, the registered capital of Shengshi Thermoelectricity was contributed as to approximately RMB17.85 million by Shengtai Medicine (representing 20% of its equity interest), approximately RMB17.85 million by Changle Sunshine (representing 20% of its equity interest) and as to approximately RMB53.55 million by Weifang Investment (representing 60% of its equity interest).

Pursuant to an equity transfer agreement dated 29 June 2007 and entered into between Changle Sunshine and Weifang Investment, Changle Sunshine acquired the 60% interest in Shengshi Thermoelectricity from Weifang Investment for a consideration of approximately RMB92.09 million, which was financed by the proceeds from the issue of the 2007 Convertible Bonds. The consideration was determined by reference to the net asset value of Shengshi Thermoelectricity of approximately RMB153.49 million as at 20 April 2007 as stated in the asset valuation report issued by 北京國有大正資產評估有限公司 (Beijing Guoyou Dazeng Assets Appraisal Co., Ltd.). As a result, Shengshi Thermoelectricity was held as to 80% by Changle Sunshine and as to 20% by Shengtai Medicine.

## **7. Shenfan**

Shenfan was established on 5 June 2006 with a registered capital of RMB200,000 and was held as to 1% by Weidong Chemical and 99% by Changle Sunshine at the time of establishment. It was engaged in the production and sales of paper tubes (紙管) and paper cores (紙芯).

Pursuant to a capital contribution agreement dated 29 June 2007 entered into between Weidong Chemical, Changle Sunshine and Shenfan, Weidong Chemical agreed to subscribe for an additional RMB2,021 in the registered capital of Shenfan by injecting approximately RMB72.8 million into Shenfan, with the difference between the capital contributed and the registered capital increased retained as capital reserve fund (資本公積金) of Shenfan. As a result of such capital contribution, the registered capital of Shenfan became RMB202,041 and was held as to 2% by Weidong Chemical and 98% by Changle Sunshine.

Pursuant to an acquisition agreement dated 30 June 2007 and entered into between Weidong Chemical and Changle Sunshine, Changle Sunshine acquired the 2% interest in Shenfan held by Weidong Chemical for a consideration of RMB4,041. Upon completion of the Shenfan Acquisition Agreement, Shenfan became a wholly-owned subsidiary of Changle Sunshine.

At the time of Shenfan's establishment, it was intended that it would specialize in the production of high quality paper tubes and paper cores exclusively for its shareholders. However, in May 2007, the shareholders decided to streamline and centralise production and to produce paper tubes and paper cores in-house. On 10 May 2007, Changle Sunshine, the sole shareholder of Shenfan, resolved to dissolve Shenfan. It was deregistered on 30 June 2007.

## **OTHER SUBSIDIARIES**

### **8. Sunshine Paper**

Sunshine Paper was incorporated in the BVI on 14 March 2006. It is an investment holding company and a direct subsidiary of the Company and is the sole shareholder of Ramble Paper.

## 9. Ramble Paper

Ramble Paper was incorporated in Hong Kong on 20 August 2007. It is an investment holding company and an indirect wholly-owned subsidiary of the Company is interested in 99.9% in Changle Sunshine.

## REORGANISATION

In contemplation of the issue of the 2006 Convertible Bonds and 2007 Convertible Bonds and in order to rationalize its structure and prepare for the Listing, the Group underwent certain restructuring steps as follows:

- (1) China Sunshine was established under the laws of the BVI on 14 March 2006.
- (2) Sunshine Paper was established under the laws of the BVI on 14 March 2006.
- (3) China Sunrise was established under the laws of Cayman Islands on 3 April 2006.
- (4) Pursuant to an equity transfer agreement dated 16 April 2006 entered into between 施衛新 (Mr. Shi Weixin), 王東興 (Mr. Wang Dongxing) (as vendors) and Sunshine Paper (as purchaser), 施衛新 (Mr. Shi Weixin) and 王東興 (Mr. Wang Dongxing) transferred the 100% equity interest in Changle Sunshine to Sunshine Paper for a total consideration of RMB73,365,275.49.
- (5) Each of SOF(I) Paper and LC Fund III subscribed for the 2006 Convertible Bonds with a principal amount of US\$7,000,000 each issued by China Sunrise pursuant to the 2006 Subscription Agreement dated 11 June 2006. Pursuant to a sale and purchase agreement and an instrument of transfer both dated 23 June 2006, SOF(I) Paper transferred a portion of the 2006 Convertible Bonds held by it with a principal amount of US\$210,000 to Forebright.
- (6) Shenfan was established in the PRC on 5 June 2006 with a registered capital of RMB200,000 and was held as to 1% by Weidong Chemical and as to 99% by Changle Sunshine.
- (7) Pursuant to a capital contribution agreement (“Capital Contribution Agreement”) dated 29 June 2006 and entered into between Weidong Chemical, Changle Sunshine and Shenfan, Weidong Chemical injected RMB72,795,223.04 (which was financed by its shareholders, namely 王東興 (Mr. Wang Dongxing) and 施衛新 (Mr. Shi Weixin) into Shenfan and subscribed for an additional RMB2,041 of the registered capital of Shenfan, with the balance retained as capital reserve fund (資本公積金) of Shenfan. Upon completion of the Capital Contribution Agreement, the registered capital of Shenfan was held as to 2% by Weidong Chemical and as to 98% by Changle Sunshine.
- (8) Weidong Chemical contributed US\$12,400 to the registered capital of Changle Sunshine pursuant to an approval document numbered “滬外經貿外資字 (2006) 第 494 號” ((2006) Wei Wai Jing Mao Wai Ji Zi No. 494) issued by Bureau of Foreign Trade and Economic Cooperation of Weifang City (濰坊市對外貿易經濟合作局) dated 29 September 2006. Upon completion of the injection of capital, Changle Sunshine was held as to 99.9% and 0.1% by Sunshine Paper and Weidong Chemical, respectively, and became a Sino-foreign joint-venture enterprise.
- (9) Pursuant to an acquisition agreement (“Shenfan Acquisition Agreement”) dated 30 June 2006 and entered into between Weidong Chemical and Changle Sunshine, Changle Sunshine acquired the 2% interest in Shenfan held by Weidong Chemical

for a consideration of RMB4,041. Upon completion of the Shenfan Acquisition Agreement, Shenfan became a wholly-owned subsidiary of Changle Sunshine, and was subsequently deregistered on 30 June 2007.

- (10) On 15 June 2007, China Sunrise issued the 2007 Convertible Bonds with an aggregate principal amount of US\$22.0 million with 7% interest due 21 December 2009 to DBS Bank Ltd. (as initial subscriber) which in turn sold the 2007 Convertible Bonds to DB on 21 June 2007 pursuant to a letter from DB to DBS Bank Ltd. dated 12 June 2006.
- (11) Pursuant to an equity transfer agreement dated 29 June 2007 entered into between Changle Sunshine and Weifang Investment, Changle Sunshine acquired a 60% equity interest in Shengshi Thermoelectricity from Weifang Investment for consideration of RMB92,091,400.
- (12) Ramble Paper was established under the laws of Hong Kong on 20 August 2007. At the time of establishment, its sole shareholder was Sunshine Paper.
- (13) The Company was established under the laws of the Cayman Islands on 22 August 2007.
- (14) Pursuant to an equity transfer agreement dated 3 September 2007 entered into between Sunshine Paper (as vendor) and Ramble Paper (as purchaser), Sunshine Paper transferred the 99.9% equity interest in Changle Sunshine to Ramble Paper for a consideration of US\$1.00.
- (15) Pursuant to an equity transfer agreement dated 15 October 2007 entered into between China Sunrise (as vendor) and the Company (as purchaser), China Sunrise transferred the 100% equity interest in Sunshine Paper to the Company in consideration of the Company issuing 1,956,389 shares of HK\$0.10 each to China Sunrise.

## FINANCIAL INVESTORS

### SOF(I) Paper

SOF(I) Paper is a company incorporated in the BVI and a wholly-owned subsidiary of SOF(I), which is a closed-end investment company incorporated in BVI. SOF(I) Paper is a special vehicle company established by SOF(I) to invest in the Company. SOF(I) is principally engaged in the investment in growing enterprises in a broad range of industries in which it has demonstrated expertise including consumer and retail, new energy and power, industrial and transportation, technology and business services in the Greater China region comprising the PRC, Hong Kong, Taiwan and Macau. Trycom Management Limited (“Trycom”) holds approximately 78.9% of the investing shares in SOF(I) which entitle holders to receive dividends of SOF(I). Trycom is ultimately beneficially owned by China Everbright Limited (stock code: 165). The holders of the remaining investing shares of SOF(I) are individuals, trusts or companies who are professional investors and are independent of Trycom and the Company.

### Forebright

Forebright is a company incorporated in the BVI. It is beneficially owned by the investment team of SOF(I) comprising of 11 individuals. Among these 11 individuals, Mr. Xu Fang, a non-executive Director, has a 7.9% interest in Forebright. The other 10 individual beneficial owners of Forebright are not connected persons of the Company, and do not have

other interests in the Company other than their indirect interest held through Forebright. Forebright principally participates in investments in which SOF(I) is involved as a co-investor.

### **LC Fund III**

LC Fund III is an exempted limited partnership established under the laws of the Cayman Islands. Its general partner is LC Fund III GP Limited. LC Fund III has nominated Good Rise, its wholly-owned subsidiary and a company incorporated in the BVI, to hold Shares in the Company upon Listing. LC Fund III is principally engaged in making investments in the information technology and other high growth industries. Legend Holdings Limited, the controlling shareholder of Lenovo Group Limited (stock code: 992), is one of the limited partners of LC Fund III. Upon Listing, Legend Holdings Limited will also be deemed interested in the Shares held by Good Rise by reason of its indirect interest in LC Fund III GP Limited, the general partner of LC Fund III, under the SFO.

### **DB**

DB is an international financial institution incorporated in Germany. It invested in the Company through its Singapore Branch. It is involved in a wide range of activities including but not limited to trading in equity, investment banking, corporate finance and global transaction banking, asset management and private wealth management. DB has nominated Deutsche Securities Asia Ltd, its wholly-owned subsidiary and a company incorporated in Hong Kong, to hold its Shares in the Company upon Listing.

### **2006 Convertible Bonds**

On 23 June 2006, China Sunrise issued the 2006 Convertible Bonds with an aggregate principal amount of US\$14.0 million with 5% interest due June 2010. SOF(I) Paper, a wholly owned subsidiary of SOF(I), and LC Fund III each subscribed for US\$7.0 million in principal amount of the 2006 Convertible Bonds. Pursuant to a sale and purchase agreement dated each 23 June 2006 and entered into between SOF(I) as vendor and Forebright as purchaser, SOF(I) transferred 3% of the 2006 Convertible Bonds held by its wholly owned subsidiary, SOF(I) Paper, in the amount of US\$210,000 to Forebright. Pursuant to the 2007 CB Supplemental Agreement, China Sunrise and each of SOF(I), Forebright and LC Fund III agreed to waive all interest payable under the 2006 Convertible Bonds from the date of issue up to the date of conversion on 29 October 2007.

### ***Investors' Rights Agreement and Share Adjustment Mechanism***

Pursuant to the Investors' Rights Agreement dated 11 June 2006 and entered into between, among others, China Sunshine, SOF(I) Paper and LC Fund III, a profit guarantee and share adjustment mechanism dependent upon the Adjusted Audited Net Income (as such term is explained below) of China Sunrise for the two financial years ending 31 December 2006 and 31 December 2007 which may cause adjustments in the interest held by SOF(I) Paper, LC Fund III and China Sunshine in the shareholding structure of China Sunrise. The major terms of the Investors' Rights Agreement are set out below.

### ***Adjusted Audited Net Income***

Adjusted Audited Net Income means the audited net income of China Sunrise as set out in the audited financial statements of China Sunrise for the financial years ending 31 December 2006 and 31 December 2007 prepared in accordance with international accounting standards ("IAS"), after taking into account the deduction and inclusion (as the case may be) of exceptional items incurred in that financial year, times a fraction where (a) the

numerator of the fraction shall be the aggregate number of the ordinary shares outstanding as at the effective date of approval of the share adjustment mechanism (as explained below) by the board of China Sunrise (“Effective Date”) and ordinary shares to be issued upon the exercise of the conversion rights of the 2006 Convertible Bonds and the conversion of the preference shares into ordinary shares of China Sunrise, or in case of any issue of securities by China Sunrise prior to the Effective Date, on a fully diluted basis on the effective date, as the case may be (“Numerator”); (b) the denominator shall be the aggregate of the Shares of China Sunrise on a fully diluted basis in that financial year ended on 31 December (excluding any shares issued by China Sunrise pursuant to an initial public offering) (“Denominator”).

For the avoidance of doubt,

“Adjusted Audited Net Income = (net audited income of China Sunrise stated in the auditor’s report – A + B) x “Numerator”/“Denominator”

Where:

A shall include the following:

- (i) any profits generated from any other businesses other than the principal/or major business;
- (ii) any extraordinary or non-recurring income;
- (iii) any form of financial subsidies, assistance, allowances or grants given by the competent government authorities, including without limitation financial subsidies and financial; and
- (iv) any income or interest arising from the issuance of any kind of securities after the Effective Date or thereafter (including the issue of 2006 Convertible Bonds).

B shall include the following:

50% of the Fixed Interest (as such term is defined under the 2006 Subscription Agreement and the 2006 Convertible Bonds) received by SOF(I) Paper and LC Fund III under the terms and conditions of the 2006 Convertible Bonds (for the avoidance of doubt, if the SOF(I) Paper and LC Fund III waive any of the Interest (as such term is defined under the 2006 Subscription Agreement and the 2006 Convertible Bonds) this item shall remain nil).

## *Share Adjustment Mechanism*

Under the Investors’ Rights Agreement, the Adjusted Audited Net Income of China Sunrise for the financial year ending 31 December 2006 as audited in accordance with International Accounting Standards (“IAS”) shall be not less than RMB67,861,933 (“2006 Net Profit Guarantee”). If:

- (a) China Sunrise fulfills the 2006 Net Profit Guarantee, SOF(I) Paper and LC Fund III shall transfer a certain number of shares in China Sunrise or part of the 2006 Convertible Bonds to China Sunshine calculated in accordance with a pre-set formula contained in the Investors’ Rights Agreement (as explained below) for a consideration of US\$1.00; and
- (b) China Sunrise fails to fulfill the 2006 Net Profit Guarantee, China Sunshine shall transfer a certain number of shares in China Sunrise to each of SOF(I) Paper and

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provided that if the Adjusted Audited Net Income of China Sunrise for the financial year ended 31 December 2006 as audited in accordance with International Accounting Standards (“IAS”) is between RMB65,317,110 and RMB70,406,755, no adjustment shall be made.

Under the Investors’ Rights Agreement, the Adjusted Audited Net Income of China Sunrise for the financial year ending 31 December 2007 as audited in accordance with IAS shall be not less than RMB111,972,189 (“2007 Net Profit Guarantee”) (The 2006 Net Profit Guarantees and the 2007 Net Profit Guarantee collectively, the “Profit Guarantees”). If:

- (a) China Sunrise fulfills the 2007 Net Profit Guarantee, SOF(I) Paper and LC Fund III shall transfer a certain number of shares in China Sunrise or part of the 2006 Convertible Bonds to China Sunshine calculated in accordance with a pre-set formula contained in the Investors’ Rights Agreement (as explained below) for a consideration of US\$1.00; and
- (b) China Sunrise fails to fulfill the 2007 Net Profit Guarantee, China Sunshine shall transfer a certain number of shares in China Sunrise to each of SOF(I) Paper and LC Fund III in accordance with a pre-set formula set out in the Investors’ Rights Agreement for a consideration of US\$1.00;

provided that if the Adjusted Audited Net Income of China Sunrise for the financial year ending 31 December 2007 as audited in accordance with IAS is between RMB107,561,164 and RMB116,383,215, no adjustment shall be made.

The pre-set formula as stipulated in the Investors’ Rights Agreement are as follows:

Where China Sunrise fulfills the Profit Guarantees, the following formula shall be applicable:

$$M = (T - X) \times (Y/T)$$

where:

M = the number of shares in China Sunrise to be transferred by each of SOF(I) Paper and LC Fund III to China Sunshine

X =  $(T) \times [(A - B)/2 + B]/A$

T = the aggregate number of the shares in China Sunrise hold by SOF(I) Paper and LC Fund III on the effective date (on a fully diluted basis)

Y = the aggregate number of the shares in China Sunrise held by SOF(I) Paper or LC Fund III on the effective date (on a fully diluted basis)

A = Adjusted Audited Net Income

B = the 2006 Net Profit Guarantee and the 2007 Net Profit Guarantee (“Profit Guarantees”)

$$(X - T) \times (Y/T)$$



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Where China Sunrise fails to fulfill the Profit Guarantees, the following formula shall be applicable:

$$N = (X - T) \times (Y/T)$$

where:

N = the number of shares to be transferred by China Sunshine to each of SOF(I) Paper or LC Fund III

X =  $T \times (B/A)$

T = the aggregate number of shares in China Sunrise held by SOF(I) Paper and LC Fund III on the effective date (on a fully diluted basis)

Y = the aggregate number of shares in China Sunrise held by SOF(I) Paper or LC Fund III on the effective date (on a fully diluted basis)

A = Adjusted Audited Net Income

B = Profit Guarantees

(the above mechanism collectively referred to as “Share Adjustment Mechanism”)

### *Management of the Company*

Under the Investors’ Rights Agreement, during the term of the Investors’ Rights Agreement, each of SOF(I) Paper and LC Fund III has the right to appoint one director to the board of directors of China Sunrise and may remove and replace the appointees by notice in writing served on the Company. Each of SOF(I) Paper and LC Fund III is also entitled to appoint one observer to attend board meetings of the Group.

### *Restrictions on issue and transfer of shares in China Sunrise*

Under the Investors’ Rights Agreement, during the term of the Investors’ Rights Agreement, China Sunrise shall not, amongst other things:

- issue new shares;
- sell, transfer, dispose of, grant any option over or create any other interests in its shares; and
- pledge, mortgage, charge other create any encumbrance in its shares;

without prior written consent of SOF(I) Paper and LC Fund III.

Save that the Share Adjustment Mechanism (as amended by the 2006 CB Supplemental Agreement) will apply to the Company (as detailed below), all other provisions of the Investors’ Rights Agreement will cease to have any further effect from the Listing Date.

### **2007 Convertible Bonds**

On 15 June 2007, China Sunrise issued the 2007 Convertible Bonds with an aggregate principal amount of US\$22.0 million with 7% interest due 21 December 2009 to DBS Bank Ltd. (as initial subscriber), which resold the 2007 Convertible Bonds to DB on 21 June 2007.



## Supplemental Agreements

### *2006 CB Supplemental Agreement*

Pursuant to the 2006 CB Supplemental Agreement dated 29 October 2007 and entered into between among others, China Sunshine, China Sunrise, SOF(I), Forebright, LC Fund III and the Company, the parties confirmed and agreed that, among other things:

- (a) it was the mutual understanding and consensus among the parties that in the event that China Sunrise is not the entity applying for listing on the Stock Exchange, then upon exercise of the conversion rights under the 2006 Convertible Bonds, SOF(I) Paper, Forebright and LC Fund III shall be issued with shares in the actual entity to be listed;
- (b) in order to, among other things, reflect the mutual understanding and consensus among the parties set out above, upon receipt of conversion notice from SOF(I) Paper, Forebright and LC Fund III, instead of issuing shares in China Sunrise to these parties, China Sunrise shall procure the Company to issue Shares to SOF(I) Paper, Forebright and LC Fund III;
- (c) as SOF(I) Paper, LC Fund III and China Sunshine had all intended that the Share Adjustment Mechanism shall apply to the entity to be listed, the Share Adjustment Mechanism shall cease to apply to China Sunrise and shall be applied to the Company upon Listing;
- (d) Forebright shall be joined as a party under in the Share Adjustment Mechanism;
- (e) all interest payable by the Company to SOF(I) Paper, Forebright, and LC Fund III from the date of issue of the 2006 Convertible Bonds up to and including 29 October 2007;
- (f) the 2006 Net Profit Guarantee shall be cancelled and no shares in China Sunrise shall be transferred among China Sunshine, SOF(I) Paper and LC Fund III pursuant to the Share Adjustment Mechanism;
- (g) the Adjusted Audited Net Income for the financial year ending 31 December 2007 shall mean the Adjusted Audited Net Income of the Group and shall be adjusted to not less than RMB129,053,895 ("Revised Profit Guarantee"). If:
  - (i) the Company fulfills the Revised Profit Guarantee, SOF(I) Paper and LC Fund III shall transfer or procure the transfer of a certain number of Shares to China Sunshine (or its nominee) calculated in accordance with the pre-set formula in the Investors' Rights Agreement as set out above for a consideration of US\$1.00; and
  - (ii) the Company fails to fulfill the Revised Profit Guarantee, China Sunshine shall transfer or procure the transfer of a certain number of Shares to each of SOF(I) Paper, Forebright and LC Fund III (or its nominee) in accordance with the pre-set formula in the Investors' Rights Agreement as set out above for a consideration of US\$1.00;

provided that if the Adjusted Audited Net Income is between RMB123,969,954 and RMB134,137,837 for the financial year ending 31 December 2007, no adjustment shall be made.

Solely by way of illustrations and not constituting any indication as to the future performance of the Group, applying the formula as set out in the Share Adjustment Mechanism (as amended by the Supplemental Agreement I), assuming the Adjusted Audited Net Income of the Company for the financial year ending 31 December 2007 is: (a) RMB140 million, the Share Adjustment Mechanism will work in favour of

China Sunshine, SOF(I) Paper and Good Rise (as nominee of LC Fund III) will be required to transfer in aggregate 3,539,802 Shares (representing approximately 0.855% of the issued share capital of the Company upon Listing, taking no account of any Shares to be issued upon exercise of the Over-allotment Option) to China Sunshine (or its nominee) for a consideration of US\$1.00; and (b) RMB120 million, the Share Adjustment Mechanism will work against China Sunshine, and China Sunshine will be required to transfer or procure its nominee to transfer in aggregate 6,831,742 Shares (representing approximately 1.71% of the issued share capital of the Company upon Listing, taking no account of any Shares to be issued upon exercise of the Over-allotment Option) to SOF(I) Paper and Good Rise (as nominee of LC Fund III) for a consideration of US\$1.00;

- (h) the income and/or profit brought by a change in accounting policy of the Company and/or its subsidiaries shall fall under the situation stipulated under “A(ii) any extraordinary or non-recurring income” in the definition of the Adjusted Audited Net Income, and such income and/or profit shall not be counted towards the Adjusted Audited Net Income;
- (i) in respect of the definition of Adjusted Audited Net Income, the percentage of the Fixed Interest under “B” of the formula shall be changed from “50%” to “100%”;
- (j) 100% of the profit arising from the acquisition of the 60% interest in Shengshi Thermoelectricity by Changle Sunshine shall be counted towards the Adjusted Audited Net Income. In other words, the abovementioned profit shall not fall under any category included in “A” in the definition of — Adjusted Audited Net Income; and
- (k) unless SOF(I), LC Fund III and China Sunshine agree unanimously in writing, the total number of Shares to be transferred among SOF(I), LC Fund III and China Sunshine (or their respective nominees) (i) in the event of an adjustment being made pursuant to the Share Adjustment Mechanism in favour of China Sunshine shall not exceed 1.75% of the total issued shares of the Company, assuming the Over-allotment Option is not exercised, up to 7,000,000 Shares held by SOF(I) Paper, Forebright and Good Rise (as nominee of LC Fund III), representing approximately 1.75% of the total number of Shares in issue upon Listing, could be transferred to China Sunrise, as nominee of China Sunshine; and (ii) in the event of an adjustment being made pursuant to the Share Adjustment Mechanism against China Sunshine, such cap shall not apply. All transfers of Shares from China Sunrise shall be effected in compliance with all applicable laws, rules and regulatory requirements, including all relevant provisions under the Listing Rules and/or the Takeovers Code. Should the Shareholding Adjustment Mechanism become operative and result in any transfer of Shares to or from China Sunrise, the Company will make an announcement immediately; and
- (l) save that the Share Adjustment Mechanism as amended shall be applied to the Company as set out above, all other provisions of the Investors’ Rights Agreement will cease to have any further effect as from the Listing Date.

The 2007 Profit Guarantee and the Revised Guaranteed Profit are only benchmarks pre-agreed among China Sunshine, SOF(I) Paper and LC Fund III for the purposes of the Share Adjustment Mechanism, which is a purely private arrangement among these parties and the Company is not a party to such arrangement. It should not be relied on by investors as to a forecast or prediction of the performance of the Group.

After Listing, upon taking effect, the Share Adjustment Mechanism (as revised by the 2006 CB Supplemental Agreement) may work in favour of or against the interests of China Sunshine, SOF(I) Paper, Forebright and LC Fund III (held through Good Rise) in the Company. Nevertheless, any transfer of Shares in the Company under the Share Adjustment Mechanism will only affect the shareholding of the above-mentioned parties in the Company and will not have any effect on the public float of the Company.

## *2007 CB Supplemental Agreement*

Pursuant to the 2007 CB Supplemental Agreement dated 15 October 2007 and entered into between China Sunrise, the Company and DB, the parties confirmed and agreed that:

- (a) it was the mutual understanding and consensus among the parties that in the event that China Sunrise is not the entity applying for a listing on the Stock Exchange, then upon exercise of the conversion rights under the 2007 Convertible Bonds, DB shall be issued shares in the actual entity to be listed; and
- (b) in order to, among other things, reflect the mutual understanding and consensus among the parties set out above, upon receipt of conversion notice from DB, instead of issuing shares in China Sunrise to DB, China Sunrise shall procure the Company to issue Shares to DB.

## **Conversion of the 2006 Convertible Bonds and the 2007 Convertible Bonds**

On 15 October 2007, DB delivered a conversion notice to China Sunrise to convert conditional upon satisfaction of the conditions to the Listing as set out in this prospectus the 2007 Convertible Bonds into Shares and requested the Company to issue 39,708,300 Shares to DB (or its nominee) on the Listing Date. On 29 October 2007, each of SOF(I) Paper, Forebright and LC Fund III also delivered conversion notices to China Sunrise to convert their respective entire 2006 Convertible Bonds into 506,150.85, 15,654.15 and 521,805 Shares to each of SOF(I) Paper, Forebright, and Good Rise (as nominee of LC Fund III), respectively, on the same date. Upon completion of such conversions, the Company became held as to approximately 65.21%, 16.87%, 0.52% and 17.39% by each of China Sunrise, SOF(I) Paper, Forebright and Good Rise, respectively.

Pursuant to the Capitalization Issue, 167,787,636, 43,409,471.15, 1,342,560.85 and 44,752,032 Shares will be issued to each of China Sunrise, SOF(I) Paper, Forebright and Good Rise. In addition, pursuant to the conditional notice of conversion given by DB as mentioned above, upon satisfaction of the conditions to the Listing as set out in this prospectus, the Company will issue 39,708,300 Shares to Deutsche Securities Asia Ltd., the nominee of DB, on the Listing Date. Each of the Financial Investors has undertaken to each of the Company, the Global Coordinator and the Sponsor (for itself and on behalf of the Hong Kong Underwriters) that the Shares issued to them upon conversion of the 2006 Convertible Bonds and the 2007 Convertible Bonds shall be subject to a lock-up of six months from the Listing Date. For further details, please refer to the section headed “Underwriting” in this prospectus.

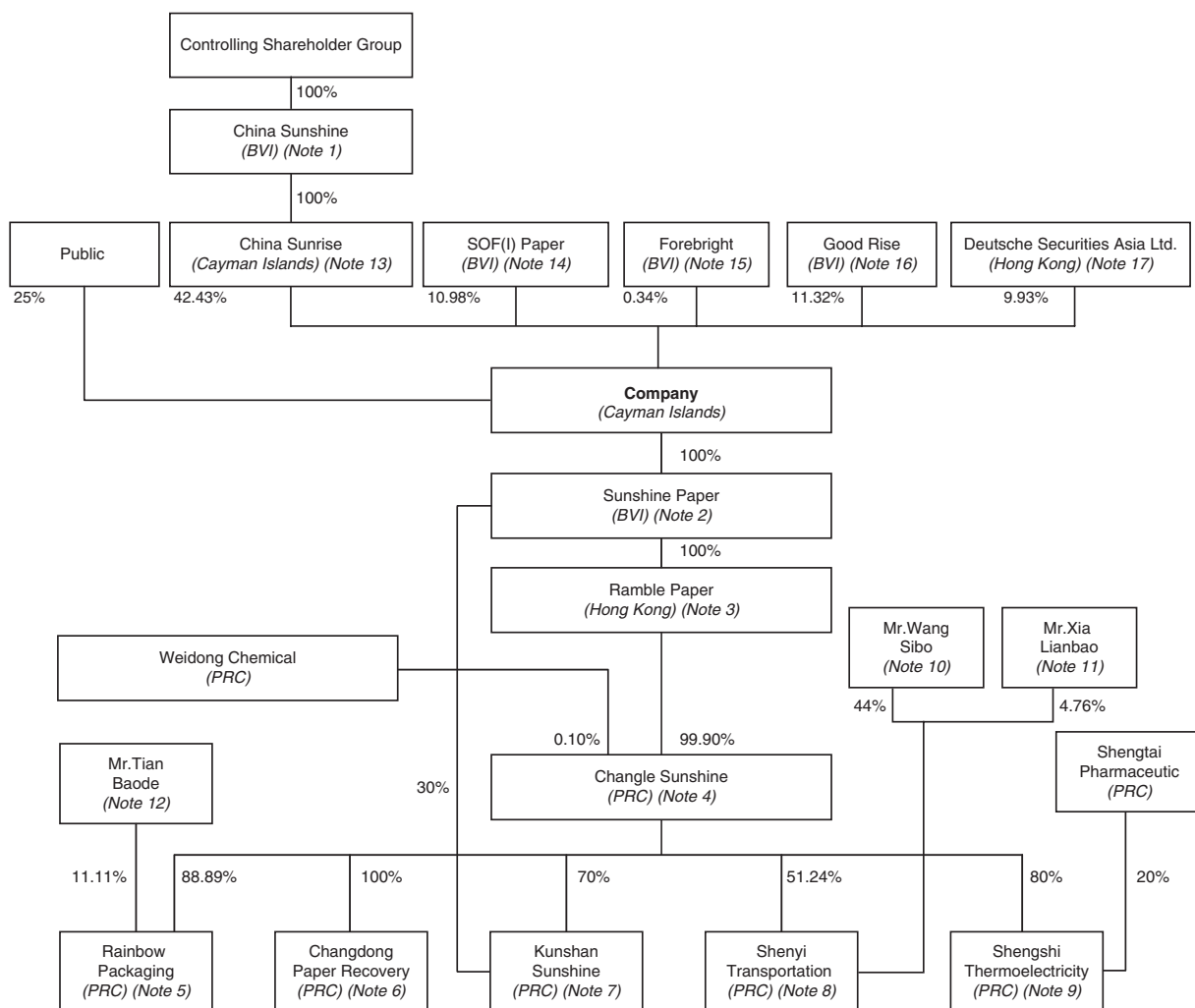
The effective conversion price under the 2006 Convertible Bonds held by SOF(I) Paper, Forebright and LC Fund III is US\$0.15 (equivalent to approximately HK\$1.17) per Share, representing a discount ranging from approximately 79.7% to 84.3% to the expected range of the Offer Price of between HK\$5.75 and HK\$7.45 per Share.

The effective conversion price under the 2007 Convertible Bonds held by DB is US\$0.55 (equivalent to approximately HK\$4.30) per Share, representing a discount ranging from approximately 25.2% to 42.3% to the expected range of the Offer Price of between HK\$5.75 and HK\$7.45 per Share.

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## SHAREHOLDING STRUCTURE

The shareholding structure of the Group immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised and no option is exercised under the Pre-IPO Share Option Scheme and Share Option Scheme, would be as follows:



### Notes:

(1) The members of the Controlling Shareholder Group and their shareholding interests in China Sunshine are as follows:

王東興	(Mr. Wang Dongxing)	23.18%	左希偉	(Mr. Zuo Xiwei)	3.09%
施衛新	(Mr. Shi Weixin)	13.02%	馬愛平	(Mr. Ma Aiping)	2.28%
王益瓏	(Mr. Wang Yilong)	8.70%	李仲翥	(Mr. Li Zhongzhu)	2.20%
吳蓉	(Ms. Wu Rong)	8.70%	李華	(Ms. Li Hua)	2.00%
汪峰	(Mr. Wang Feng)	6.68%	郭建林	(Mr. Guo Jianlin)	1.95%
桑自謙	(Mr. Sang Ziqian)	4.64%	孫清濤	(Mr. Sun Qingtao)	1.73%
桑永華	(Mr. Sang Yonghua)	4.46%	陸雨杰	(Mr. Lu Yujie)	1.57%
王永慶	(Mr. Wang Yongqing)	3.93%	胡剛	(Mr. Hu Gang)	1.50%
陳效雋	(Mr. Chen Xiaojun)	3.80%	張增國	(Mr. Zhang Zengguo)	1.50%
鄭法聖	(Mr. Zheng Fasheng)	3.57%	王長海	(Mr. Wang Changhai)	1.50%

(2) Sunshine Paper is an investment holding company.

(3) Ramble Paper is an investment holding company.

(4) Changle Sunshine is principally engaged in the production and sale of machine-made paper, advanced paper board, paper auxiliaries and raw materials for paper production.

- (5) Rainbow Packaging is principally engaged in the production and sale of paper box, paper board and packaging materials and sales of paper-making material.
- (6) Changdong Paper Recovery is engaged in the business of waste paper trading.
- (7) Kunshun Sunshine is principally engaged in the production and processing of electrical equipment and instruments, computer-controlled products and adhesive mounts.
- (8) Shenyi Transportation is engaged in general cargo transportation and domestic and international container transportation.
- (9) Shengshi Thermoelectricity is engaged in the supply of steam and electricity exclusively to its shareholders. Please also refer to the section headed "Relationship with the Controlling Shareholder Group" in this prospectus.
- (10) 王思波 (Mr. Wang Sibo) holds the 44% interest in Shenyi Transportation as to 1.34% for himself and as to 42.67% on trust for 66 individuals.
- (11) 夏連寶 (Mr. Xia Lianbao) holds the 4.76% interest in Shenyi Transportation on trust for seven individuals.
- (12) 田保德 (Mr. Tian Baode) holds the 11.11% interest in Rainbow Packaging on trust for 昌樂縣寶城街道辦事處 (Changle County Baocheng Street Office).
- (13) In the event that the Share Adjustment Mechanism as provided in the Investors' Rights Agreement (as amended by the 2006 CB Supplemental Agreement) results in a transfer of Shares to China Sunrise, its shareholding in the Company could be increased by up to 1.75% to approximately 44.18%.
- (14) In the event that the Share Adjustment Mechanism as provided in the Investors' Rights Agreement (as amended by the 2006 CB Supplemental Agreement) results in a transfer of Shares to China Sunrise, its shareholding in the Company could be reduced by up to approximately 0.85% to approximately 10.13%.
- (15) In the event that the Share Adjustment Mechanism as provided in the Investors' Rights Agreement (as amended by the 2006 CB Supplemental Agreement) results in a transfer of Shares to Forebright, its shareholding in the Company could be reduced by up to approximately 0.03% to approximately 0.31%.
- (16) Good Rise is wholly-owned by LC Fund III. In the event that the Share Adjustment Mechanism as provided in the Investors' Rights Agreement (as amended by the 2006 CB Supplemental Agreement) results in a transfer of Shares to Good Rise, its shareholding in the Company could be reduced by up to approximately 0.88% to approximately 10.44%.
- (17) Deutsche Securities Asia Ltd. is wholly-owned by DB.

## **Use of Proceeds of the Convertible Bonds**

As at the Latest Practicable Date, the proceeds of US\$14 million raised from the 2006 Convertible Bonds had been fully utilised as to approximately US\$9.15 million for the acquisition of Changle Sunshine, as to approximately US\$750,000 for the acquisition of 30% interest in Kunshan Sunshine, both as part of the Reorganisation, as to approximately US\$3.6 million has been injected into Changle Sunshine to increase its registered capital and the balance of US\$0.5 million as expenses (including fees of professional advisers) incurred in connection with the 2006 Subscription Agreement and issue of the 2006 Convertible Bonds. With respect to the proceeds of US\$22 million raised from the sale of the 2007 Convertible Bonds, approximately US\$21 million has been injected into Changle Sunshine to increase its registered capital, out of which (i) approximately RMB92 million (equivalent to approximately US\$12.2 million) was in turn used to acquire 60% interest in Shengshi Thermoelectricity; (ii) approximately RMB66.4 million (equivalent to approximately US\$8.8 million) was used to finance the construction of a new production line of Changle Sunshine. US\$0.8 million was used as general working capital of the Company. The balance of US\$0.2 million as expenses (including fees of professional advisers) incurred in connection with the 2007 Subscription Agreement and issue of the Convertible Bonds.