

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 31 December 2018 regarding the Existing Steam Supply Agreement and the Existing Electricity Supply Agreement. Both of the Existing Steam Supply Agreement and the Existing Electricity Supply Agreement will expire on 31 December 2021.

NEW STEAM SUPPLY AGREEMENT

On 31 December 2021, Shengshi Thermoelectricity, an indirect subsidiary of the Company, and Shengtai Medicine entered into the New Steam Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for another three years with effect from 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Steam Supply Agreement are substantially the same as those of the Existing Steam Supply Agreement.

NEW ELECTRICITY SUPPLY AGREEMENT

On 31 December 2021, Shengshi Thermoelectricity and Shengtai Medicine also entered into the New Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for another three years with effect from 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Electricity Supply Agreement are substantially the same as those of the Existing Electricity Supply Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengshi Thermoelectricity is held as to 80% by Century Sunshine and 20% by Shengtai Medicine. As such, Shengtai Medicine is a substantial shareholder of Shengshi Thermoelectricity and hence a connected person at the subsidiary level of the Company under the Listing Rules. Accordingly, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Since (1) the New Steam Supply Agreement and the New Electricity Supply Agreement were signed on the same date, (2) the parties to these two agreements are the same, and (3) the nature of transactions under these two agreements are similar, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement shall be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As the Board (including all the independent non-executive Directors) has approved the New Steam Supply Agreement and the New Electricity Supply Agreement and confirmed that the terms therein are fair and reasonable, and the transactions thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement and the proposed annual caps thereunder, on an aggregate basis, are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

1. BACKGROUND

Reference is made to the announcement of the Company dated 31 December 2018 regarding the Existing Steam Supply Agreement and the Existing Electricity Supply Agreement. Both of the Existing Steam Supply Agreement and the Existing Electricity Supply Agreement will expire on 31 December 2021.

New Steam Supply Agreement

On 31 December 2021, Shengshi Thermoelectricity, an indirect subsidiary of the Company, and Shengtai Medicine entered into the New Steam Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for another three years with effect from 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Steam Supply Agreement are substantially the same as those of the Existing Steam Supply Agreement.

New Electricity Supply Agreement

On 31 December 2021, Shengshi Thermoelectricity and Shengtai Medicine also entered into the New Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for another three years with effect from 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The terms of the New Electricity Supply Agreement are substantially the same as those of the Existing Electricity Supply Agreement.

Further details of the New Steam Supply Agreement and the New Electricity Supply Agreement are set out below.

2. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. New Steam Supply Agreement

A. Principal Terms

Date of agreement:	31 December 2021
Parties:	(i) Shengshi Thermoelectricity, as supplier; and (ii) Shengtai Medicine, as customer.
Subject:	Supply of steam from Shengshi Thermoelectricity to Shengtai Medicine.
Term:	From 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).
Price:	RMB201.83 per ton (exclusive of tax and subject to adjustment in accordance with any significant change in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).

The unit price (i.e. price per ton) for the supply of steam from Shengshi Thermoelectricity under the New Steam Supply Agreement is determined based on the reasonable market prices of raw materials agreed by both parties and the estimated costs for the supply of steam, as well as taking into consideration of the amount of steam to be purchased and the term of the New Steam Supply Agreement. For purpose of determining the annual caps, the Directors consider that it is prudent to assume coal price to rebound slightly. Therefore, it is expected that the price of steam will increase by approximately 5% from 2022 to 2024. In determining the reasonableness of the prices to be charged, the parties will make reference to the prices charged by suppliers which are independent third parties for supply of steam of comparable nature, quantity and specifications.

Payment methods and payment terms: Settled by cash or bills semi-monthly, not later than the 18th of the existing month and the 3rd of the next month.

Historical figures: The historical transaction amounts (exclusive of tax) for each of the three years ended 31 December 2021 as follows:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2021
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	96.7	111.2	128.0
Actual amount	77.1	71.5	82.8
			<i>(Note)</i>

Note: unaudited figures

Proposed annual caps: The proposed annual caps under the New Steam Supply Agreement are set as RMB147.8 million (equivalent to approximately HK\$180.2 million), RMB162.9 million (equivalent to approximately HK\$198.7 million) and RMB179.6 million (equivalent to approximately HK\$219.0 million) (exclusive of tax), respectively, for each of the three financial years ending 31 December 2024, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for steam by both of Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of steam and the projected growth in the steam production capacity of Shengshi Thermoelectricity.

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

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

The Board (including the independent non-executive Directors) considers that the terms of the New Steam Supply Agreement are determined on arm's length basis and in line with normal commercial terms, and that the terms of the New Steam Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

II. New Electricity Supply Agreement

A. Principal Terms

Date of agreement:	31 December 2021
Parties:	(i) Shengshi Thermoelectricity as supplier; and (ii) Shengtai Medicine as customer.
Subject:	Supply of electricity from Shengshi Thermoelectricity to Shengtai Medicine.
Term:	From 1 January 2022 to 31 December 2024, renewable for term(s) of not more than three years each upon expiry (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).
Price:	RMB0.49 per kilowatt-hour (exclusive of tax and subject to adjustment of any significant change in the price of raw materials, which will be determined by the board of directors of Shengshi Thermoelectricity).

The unit price (i.e. price per kilowatt-hour) for the supply of electricity from Shengshi Thermoelectricity under the New Electricity Supply Agreement is determined based on the reasonable market prices of raw materials agreed by both parties and the estimated costs for the supply of electricity, as well as taking into consideration of the amount of electricity to be purchased and the term of the New Electricity Supply Agreement. For purpose of determining the annual caps, the Directors consider that it is prudent to assume coal price to rebound slightly. Therefore, it is expected that the price of electricity will increase by approximately 5% from 2021 to 2024. In determining the reasonableness of the prices to be charged, the parties will make reference to the prices charged by suppliers which are independent third parties for supply of electricity of comparable nature, quantity and specifications.

Payment methods and payment terms: Settled by cash or bills semi-monthly, not later than the 18th of the existing month and the 3rd of the next month.

Historical figures: The historical transaction amounts (exclusive of tax) for each of the three years ended 31 December 2021 as follows:

	For the year ended 31 December 2019 <i>RMB' million</i>	For the year ended 31 December 2020 <i>RMB' million</i>	For the year ended 31 December 2021 <i>RMB' million</i>
Annual cap	53.3	61.3	70.5
Actual amount	47.4	38.8	39.4 <i>(Note)</i>

Note: unaudited figures

Proposed annual caps: The proposed annual caps under the New Electricity Supply Agreement are set as RMB56.4 million (equivalent to approximately HK\$68.8 million), RMB62.1 million (equivalent to approximately HK\$75.7 million) and RMB68.5 million (equivalent to approximately HK\$83.5 million) (exclusive of tax) respectively for each of the three financial years ending 31 December 2024, which are determined by reference to the historical transaction amounts, the projected growth of business of and demand for electricity by both of Century Sunshine and Shengtai Medicine, the expected price of coal, which is the major raw material for the generation of electricity and the projected growth in the electricity production capacity of Shengshi Thermoelectricity.

B. Reasons for and benefits of the New Electricity Supply Agreement

Shengshi Thermoelectricity is principally engaged in the supply of electricity (primarily to its shareholders) and steam. It is always the intention of both Century Sunshine and Shengtai Medicine, being the shareholders of Shengshi Thermoelectricity, that the electricity generated by Shengshi Thermoelectricity should satisfy the production needs of both parties. In addition, supplying electricity to Shengtai Medicine has been generating a

reasonable revenue and return to the Group in addition to its core business. As such, the Directors consider that Shengshi Thermoelectricity should continue to supply electricity to Shengtai Medicine.

The Board (including the independent non-executive Directors) considers that the terms of the New Electricity Supply Agreement are determined on arm's length basis and in line with normal commercial terms, and that the terms of the New Electricity Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. INFORMATION ON THE PARTIES

The Group is principally engaged in the production and sale of white top linerboard, coated-white top linerboard and core board. Shengshi Thermoelectricity is an indirect subsidiary of the Company and is principally engaged in the supply of electricity (primarily to its shareholders) and steam.

Shengtai Medicine is principally engaged in the business of production of pharmaceutical products, which is ultimately owned by Liu Qingtai (劉清太) who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than having an interest in Shengtai Medicine, is a third party independent of the Company and its connected persons.

4. INTERNAL CONTROL MEASURES

To ensure the purchase price and payment terms of relevant products under the New Steam Supply Agreement and the New Electricity Supply Agreement are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than those available from the independent third parties, and the annual caps under the continuing connected transactions will not be exceeded, the Group has adopted and will continue to adopt the following internal control measures:

- (1) the pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the relevant personnel and management of the Group in charge to ensure all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its Shareholders as a whole;
- (2) the relevant personnel from the financial department will closely monitor the New Steam Supply Agreement and the New Electricity Supply Agreement to ensure that the transaction amounts do not exceed the proposed annual caps thereunder and will report his/her findings to the management of the Company;

- (3) the Company will continue to engage the independent auditors to review the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement in compliance with the annual reporting and review requirements under the Listing Rules;
- (4) the audit committee of the Company will conduct an annual review of the pricing terms and transaction amounts in respect of the New Steam Supply Agreement and the New Electricity Supply Agreement; and
- (5) the independent non-executive Directors will review all continuing connected transactions of the Company.

Accordingly, the Directors consider that the internal control mechanism is effective to ensure that all continuing connected transactions have been and will be conducted on normal commercial terms and in accordance with the pricing policy of the Group and not prejudicial to the interests of the Company and the Shareholders as a whole.

5. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengshi Thermoelectricity is held as to 80% by Century Sunshine and 20% by Shengtai Medicine. As such, Shengtai Medicine is a substantial shareholder of Shengshi Thermoelectricity and hence a connected person at the subsidiary level of the Company under the Listing Rules. Accordingly, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Since (1) the New Steam Supply Agreement and the New Electricity Supply Agreement were signed on the same date, and (2) the parties to these two agreements are the same, and (3) the nature of transactions under these two agreements are similar, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement shall be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As the Board (including all the independent non-executive Directors) has approved the New Steam Supply Agreement and the New Electricity Supply Agreement and confirmed that the terms therein are fair and reasonable, and the transactions thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the transactions under the New Steam Supply Agreement and the New Electricity Supply Agreement and the proposed annual caps thereunder, on an aggregate basis, are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

None of the Directors has a material interest in the transactions under the New Steam Supply Agreement or the New Electricity Supply Agreement and hence no Director is required to abstain from voting on the relevant Board resolutions approving the agreements.

DEFINITIONS

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

“Board”	the board of directors of the Company
“Century Sunshine”	Shandong Century Sunshine Paper Group Co., Ltd.* (山東世紀陽光紙業集團有限公司), a company established under the laws of the PRC with limited liability and an indirect subsidiary of the Company. It is engaged in the business of production and sales of high-grade paper boards and the principal operating subsidiary in the Group
“Company”	China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司), an exempt company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Existing Electricity Supply Agreement”	an electricity supply agreement dated 31 December 2018 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for a term from 1 January 2019 to 31 December 2021
“Existing Steam Supply Agreement”	a steam supply agreement dated 31 December 2018 and entered into between Shengshi Thermoelectricity and Shengtai Medicine pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for a term from 1 January 2019 to 31 December 2021
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

“New Electricity Supply Agreement”	an electricity supply agreement dated 31 December 2021 and entered into between Shengshi Thermoelectricity and Shengtai Medicine renewing the Existing Electricity Supply Agreement, pursuant to which Shengshi Thermoelectricity agreed to supply electricity to Shengtai Medicine for a term from 1 January 2022 to 31 December 2024
“New Steam Supply Agreement”	a steam supply agreement dated 31 December 2021 and entered into between Shengshi Thermoelectricity and Shengtai Medicine, renewing the Existing Steam Supply Agreement pursuant to which Shengshi Thermoelectricity agreed to supply steam to Shengtai Medicine for a term from 1 January 2022 to 31 December 2024
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Shengshi Thermoelectricity”	昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.*), a company established under the laws of the PRC with limited liability on 17 October 2003 and an indirect subsidiary of the Company with effect from 29 June 2007. It is held as to 80% by Century Sunshine and 20% by Shengtai Medicine
“Shengtai Medicine”	濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.*), a company established under the laws of the PRC with limited liability on 10 February 2004. It has a 20% equity interest in Shengshi Thermoelectricity. It is principally engaged in the business of production of pharmaceutical products
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Unless otherwise defined, an exchange rate of HK\$1.00 = RMB0.82 is adopted in this announcement, for illustration purpose only.

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

Weifang, the PRC, 31 December 2021

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

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

Non-executive Directors: Ms. Wu Rong

Independent non-executive Directors: Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie

* For identification purpose only.