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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

CONTINUING CONNECTED TRANSACTIONS

(1) EXCEEDED THE 2022 ANNUAL CAP

AND

**(2) REVISION OF ANNUAL CAPS FOR THE TWO YEARS ENDING
31 DECEMBER 2024**

Reference is made to the announcement of China Sunshine Paper Holdings Company Limited (the “**Company**”) dated 31 December 2021 (the “**Announcement**”) in relation to, among other things, the annual caps for the continuing connected transactions contemplated under the New Steam Supply Agreement and the New Electricity Supply Agreement. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

EXCEEDED OF 2022 ANNUAL CAP

In February 2023, in the course of preparing the annual results of the Company for the year ended 31 December 2022 and during a regular review of certain continuing connected transactions of the Company, it came to the attention of the Company that the transaction amount of electricity supplyment by Shengshi Thermolectricity to Shengtai Medicine under the New Electricity Supply Agreement for the year ended 31 December 2022 reached approximately RMB62.7 million, which exceeded the original annual cap of RMB56.4 million for the year ended 31 December 2022 (the “**2022 Annual Cap**”) under the New Electricity Supply Agreement. The 2022 Annual Cap was exceeded mainly due to the higher-than-expected demand and the increased unit price adjusted based on the increased price of raw materials.

Pursuant to Rule 14A.54(1) of the Listing Rules, the Company must re-comply with the announcement requirement under Chapter 14A of the Listing Rules before the cap is exceeded. The delay in publication of an announcement by the Company before the 2022 Annual Cap was exceeded constituted a breach of Rule 14A.54(1) of the Listing Rules. Such delay was due to inadvertent oversight of the Company. The Company discovered such breach in February 2022 during the course of preparing the annual results of the Company for the year ended 31 December 2022 and has taken steps to rectify the breach as soon as practicable by way of this announcement.

REVISION OF ANNUAL CAPS UNDER THE NEW STEAM SUPPLY AGREEMENT AND THE NEW ELECTRICITY SUPPLY AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2024

In view of the 2022 Annual Cap having been exceeded and considering (i) the growth of demand of Shengtai Medicine; and (ii) steam and electricity supply costs have risen significantly since 2022, the annual caps under the New Steam Supply Agreement and the New Electricity Supply Agreement for the two years ending 31 December 2024 (collectively, the “**Revised Annual Caps**”) are revised.

Set out below are the (i) original annual caps under the New Steam Supply Agreement and the New Electricity Supply Agreement for each of the three years ended/ending 31 December 2024; (ii) actual unaudited transaction amount of the electricity and steam by Shengshi Thermolectricity to Shengtai Medicine for the year ended 31 December 2022; and (iii) the Revised Annual Caps:

	Original annual caps for the years ended/ ending 31 December			Actual transaction amount for the year ended 31 December (unaudited)	The Revised Annual Caps for the years ending 31 December	
	2022 <i>RMB'</i> <i>million</i>	2023 <i>RMB'</i> <i>million</i>	2024 <i>RMB'</i> <i>million</i>	2022 <i>RMB'</i> <i>million</i>	2023 <i>RMB'</i> <i>million</i>	2024 <i>RMB'</i> <i>million</i>
New Steam Supply Agreement	147.8	162.9	179.6	130.1	215.8	237.9
New Electricity Supply Agreement	56.4	62.1	68.5	62.7	79.1	87.2
Aggregate Amount	204.2	225.0	248.1	192.8	294.9	325.1

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

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 and Electricity produced by Shengshi Thermoelectricity should, as a priority, satisfy the production needs of both parties. In addition, supplying steam and electricity 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 and electricity to Shengtai Medicine.

The Board (including the independent non-executive Directors) considers that the terms of the New Steam Supply Agreement and the New Electricity Supply Agreement dated 31 December 2021 as well as the proposed annual caps (including the Revised Annual Caps) are determined on arm's length basis and in line with normal commercial terms, and that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

MEASURES ADOPTED BY THE COMPANY

In order to avoid any recurrence of similar events in the future and to improve the Company's compliance with the applicable Listing Rules requirements going forward, the Company has taken the following steps to further strengthen its internal monitoring procedures:

- A. conducting more frequent reviews on the continuing connected transactions of the Company;
- B. arranging regular trainings for its employees, including the business operation department, finance department and compliance department, to strengthen their knowledge of the Listing Rules and enhance their awareness of the importance of compliance with the Listing Rules; and
- C. the senior management members and the finance manager of the Company will enhance supervision over the actual transaction amounts incurred under the continuing connected transactions of the Company on a more regular basis. For example, if the actual transaction amount reaches 80% or more of the relevant annual cap at any time, the matter shall promptly be escalated to the Board, which will decide the appropriate measure to be taken, including but not limited to revising the relevant annual cap and seeking approval from the independent Shareholders in accordance with the requirements of the Listing Rules, if necessary.

The Directors are of the view that the above enhanced internal control measures could strengthen the internal control procedures of the Company and effectively prevent the occurrence of similar non-compliance in the future. The Board considers that the 2022 Annual Cap under the New Electricity Supply Agreement having been exceeded was an isolated event and believes that it does not bring about any material impact on the business and operations of the Company, nor does it have a material financial impact on the Company.

RELATIONSHIP BETWEEN THE PARTIES AND 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 actual transaction amount under the New Electricity Supply Agreement payable by Shengtai Medicine exceeded the 2022 Annual Cap, pursuant to Rule 14A.54(1) of the Listing Rules, the Company is required to re-comply with the announcement requirement under Chapter 14A 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 the Revised Annual Caps 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 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. Accordingly, the Revised Annual Caps were exempt from the independent Shareholders' approval requirements.

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 and the Revised Annual Caps.

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

Shandong, China, 20 February 2023

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 Director: *Ms. Wu Rong*

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

* *For identification purposes only*