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)

UPDATE ON PROFIT GUARANTEE AND DISCLOSEABLE TRANSACTION IN RELATION TO DISPOSAL OF 45% SHAREHOLDING INTEREST IN THE TARGET COMPANY

Reference is made to the Announcement, the Supplemental Announcement, the announcement dated 21 January 2022 and the Update Announcement in relation to the acquisition of 45% shareholding interest in the Target Company and the expected failure of the Target Group to meet the 2022 Guaranteed Profit.

Given that additional time was required by the auditors of the Target Group to confirm different items in the financial statements and ensure the quality and accuracy of the audit as it was the first annual audit of the Target Group's consolidated financial statement after its corporate restructuring, the audit of the Target Group's financial statements for FY2022 had not completed until 4 July 2023. According to the 2022 Audited Accounts which have recently been delivered by the Target Group to the Group, the Target Group recorded a net loss of approximately CA$14.8 million for FY2022.

Pursuant to the Sale and Purchase Agreement, as a result of the Target Group's failure to meet more than 70% of the 2022 Guaranteed Profit, the Vendors and Vendors' Guarantors shall jointly and severally within thirty Business Days from the date on which the 2022 Audited Accounts are delivered to the Purchaser repurchase or procure its affiliates to repurchase all the shares of the Target Company which are owned by the Purchaser on such date at the consideration of RMB265,000,000.

In light of the above, the Board wishes to announce that on 17 August 2023 (after trading hours), the Purchaser, the Vendors and the Vendors' Guarantors entered into the Repurchase Agreement, pursuant to which the Purchaser (as vendor in the Repurchase) has agreed to re-sell, and the Vendors (as purchasers in the Repurchase) have agreed to re-purchase, the Sale Shares at a total consideration of RMB265,000,000, subject to the terms and conditions of the Repurchase Agreement.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Repurchase are more than 5% but less than 25%, the Repurchase constitutes a discloseable transaction for the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

BACKGROUND

Reference is made to the announcement of China Sunshine Paper Holdings Company Limited (the "**Company**") dated 10 November 2021 (the "**Announcement**"), the supplemental announcement of the Company dated 4 January 2022 (the "**Supplemental Announcement**"), the announcement of the Company dated 21 January 2022 and the announcement of the Company dated 26 January 2023 (the "**Update Announcement**") in relation to the acquisition of 45% shareholding interest in the Target Company and the expected failure of the Target Company to meet the 2022 Guaranteed Profit. Unless defined otherwise, all capitalised terms used herein shall have the same meanings as those defined in the Announcement and the Supplemental Announcement.

As disclosed in the Announcement, according to the Sale and Purchase Agreement, the Vendors and the Vendors' Guarantors irrevocably and unconditionally guarantee jointly and severally to the Purchaser that the 2022 Net Profit shall not be less than RMB30,000,000 (the "**2022 Guaranteed Profit**"). As further disclosed in the Update Announcement, based on its unaudited financial statements, the Target Group recorded a book loss and was expected to remain at a book loss for the full year ended 31 December 2022 ("**FY2022**"), which will not meet 70% of the 2022 Guaranteed Profit.

Given that additional time was required by the auditors of the Target Group to confirm different items in the financial statements and ensure the quality and accuracy of the audit as it was the first annual audit of the Target Group's consolidated financial statement after its corporate restructuring, the audit of the Target Group's financial statements for FY2022 had not completed until 4 July 2023. According to the 2022 Audited Accounts which have recently been delivered by the Target Group to the Group, the Target Group recorded a net loss of approximately CA$14.8 million for FY2022.

REASONS FOR THE TARGET GROUP'S FAILURE TO MEET THE PROFIT GUARANTEE

To the best knowledge, information and belief of the Board based on the information provided by the Vendors and the Vendors' Guarantors, the Target Group failed to meet the 2022 Guaranteed Profit mainly due to the fact that the Target Group was undergoing certain business adjustments and refining its business direction in relation to its LNG Business and IDC Electricity Business during FY2022 to cope with the changing business environment. As a result, the Target Group recorded income lower than expected and non-operating impairment loss which had not been expected when the Group acquired the Target Group in 2021.

Details of the performance of the LNG Business and the IDC Electricity Business of the Target Group in FY2022 and its impacts on the 2022 Guaranteed Profit are further disclosed as follows:

(i) LNG Business

As disclosed in the Supplemental Announcement, the target customers of the LNG Business of the Target Group had mainly been domestic customers in Canada. However, the cost of natural gas fuel and the cost of purchasing and liquefying raw materials for LNG in Canada had increased significantly due to the global energy crisis, which led to an increase in the price of LNG to be set by fuel providers. For instance, natural gas price had soared from approximately CA$0.52 per gigajoule in 2019 to as high as approximately CA$6.5 per gigajoule in 2022. Such rises in price had diminished the incentive for end-users to seek LNG as an alternative fuel of diesel and liquefied petroleum gas and imposed higher risk and uncertainty to the LNG Business of the Target Group which had been planned to focus on Canada.

While the Target Group had tried to continue its LNG Business by exploring the possibility of extending its market and export its LNG products to countries other than Canada including the Asian markets such as China, the attempt failed as the overseas demand for LNG from Canada had slowed down due to, among other reasons, competitive prices of fuel providers in other countries and the shipment cost was relatively high.

Due to the above developments in the LNG Business market in FY2022 and for strategic reason, the Target Group decided to put on hold its LNG Business, including the construction of the BC LNG Plant, for the time being and focus its resources on the IDC Electricity Business, which has appeared to be more promising and able to generate a steady source of income for the Target Group as further elaborated below.

While it is still the long-term plan of the Target Group to develop its LNG Business when the market conditions (including but not limited to the raw material, processing and transportation costs, and the wider economic and political environment) become favourable, driven by its current business strategy to focus on and to optimise and consolidate its resources for the IDC Electricity Business for the time being, the Target Group terminated certain service contracts in connection with the LNG Business and disposed of certain subsidiaries engaging in the LNG Business in FY2022, giving rise to an aggregate non-operating impairment loss of approximately CA$7 million. The record of the aforesaid impairment by the Target Group contributed to its failure to meet the 2022 Guaranteed Profit.

(ii) IDC Electricity Business

In relation to the IDC Electricity Business, in the course of its application for the AUC Licence and relevant compliances in FY2022, the Target Group had encountered stringent compliance requirements which had become the major deterrent to its plan to commence the IDC Electricity Business in Canada. While the Target Group had budgeted and estimated the relevant costs and time according to the general requirements for obtaining the AUC Licence and other approval and permits which are set out in the relevant regulations, the actual extent of works required to be done by the Target Group to fulfill such requirements was subject to the discretion of the relevant authorities on a case-by-case basis. As the operation of internet data centres is considered in Canada as a significant infrastructure, the relevant authorities imposed stringent evaluation and compliance requirements, including environmental assessments, application for construction permit, making consultation with residents in the vicinity, etc. Based on the assessment of the Target Group taking into account the latest requirements from the authorities, it was expected that the evaluation process may take up to 18 months to complete.

In view of the prolonged approval process in Canada, the Target Group had relocated its IDC Electricity Business to the United States which adopted more efficient approval process and, as assessed by the Target Group, has favourable business environment and ample clientele and power resources. The Target Group has obtained the necessary approval and been operating its IDC Electricity Business in the United States since November 2022. Despite the change in location for operation of business, the business model and target customers of the IDC Electricity Business have remained materially unchanged.

While the change in location for the IDC Electricity Business has proved to be beneficial to the Target Group, the Target Group had recorded higher costs and lower income for FY2022 mainly due to (i) the effect of incurring both the initial costs in the application for approval for operating the IDC Electricity Business in Canada (the "**Canada Application**") and subsequent costs of equivalent application in the United States (the "**US Application**") upon the decision to change the location of operation; and (ii) the delay in commencement of the IDC Electricity Business until November 2022 in light of the additional time to make the US Application afresh after the decision to change the location of operation from Canada to United States.

THE REPURCHASE AGREEMENT

Pursuant to the Sale and Purchase Agreement, as a result of the Target Group's failure to meet more than 70% of the 2022 Guaranteed Profit, the Vendors and Vendors' Guarantors shall jointly and severally within thirty Business Days from the date on which the 2022 Audited Accounts are delivered to the Purchaser repurchase or procure its affiliates to repurchase all the shares of the Target Company which are owned by the Purchaser on such date at the consideration of RMB265,000,000 (the "**Repurchase**").

The Board wishes to announce that on 17 August 2023 (after trading hours), the Purchaser, the Vendors and the Vendors' Guarantors entered into a repurchase agreement (the "**Repurchase Agreement**"), pursuant to which the Purchaser (as vendor in the Repurchase) has agreed to re-sell, and the Vendors (as purchasers in the Repurchase) have agreed to re-purchase, the Sale Shares at a total consideration of RMB265,000,000, subject to the terms and conditions of the Repurchase Agreement.

The salient terms of the Repurchase Agreement are as follows:

Date

17 August 2023

Parties

(i) Purchaser (as vendor in the Repurchase);

(ii) Vendor A (as purchaser in the Repurchase);

(iii) Vendor B (as purchaser in the Repurchase);

(iv) Vendors' Guarantor A (as purchaser's guarantor in the Repurchase); and

(v) Vendors' Guarantor B (as purchaser's guarantor in the Repurchase).

Subject matter

Subject to the terms and conditions of the Repurchase Agreement, Vendor A and Vendor B have agreed to re-purchase the Sale Shares in the following proportion:

(i) the Purchaser (as vendor in the Repurchase) has conditionally agreed to re-sell, and Vendor A (as purchaser in the Repurchase) has agreed to re-purchase, 2,000 fully paid-up shares in the capital of the Target Company legally and beneficially owned by the Purchaser (representing 20% of the total issued shares of the Target Company) ("**Sale Shares A**"); and

(ii) the Purchaser (as vendor in the Repurchase) has conditionally agreed to re-sell, and Vendor B (as purchaser in the Repurchase) has agreed to re-purchase, 2,500 fully paid-up shares in the capital of the Target Company legally and beneficially owned by the Purchaser (representing 25% of the total issued shares of the Target Company) ("**Sale Shares B**", together with Sale Shares A, the "**Sale Shares**").

The Sale Shares represent 45% of the total issued shares of the Target Company and all shareholding in the Target Company acquired by the Purchaser under the Sale and Purchase Agreement and owned by the Purchaser as at the date of this announcement. Upon completion of the transactions contemplated under the Repurchase Agreement (the "**Completion**"), the Target Company will cease to be an associate company of the Company.

Consideration

The total consideration for the Sale Shares (as stipulated by the Sale and Purchase Agreement) (the "**Consideration**") shall be RMB265,000,000, comprising (i) total consideration for Sale Shares A of RMB117,660,000 ("**Consideration A**"); and (ii) total consideration for Sale Shares B of RMB147,340,000 ("**Consideration B**").

Consideration A shall be paid by Vendor A to the Purchaser in the following manner:

(i) a non-refundable deposit of RMB26,500,000 (the "**Deposit**") to be paid upon the execution of the Repurchase Agreement, which shall be paid by and set-off against the outstanding sum of RMB26,500,000 (the "**Security Money**") that the Purchaser has withheld from the cash consideration payable to Vendor A under the Sale and Purchase Agreement after obtaining the consent from Vendor A as security money for achieving the 2022 Guaranteed Profit by the Target Group;

(ii) the balance of Consideration A shall be paid and settled by Vendor A to the Purchaser by transferring the sum to the bank account designated by the Purchaser without deduction within 18 months of the date of execution of the Repurchase Agreement.

Consideration B shall be paid and settled by Vendor B to the Purchaser by transferring the sum to the bank account designated by the Purchaser without deduction within 18 months of the date of execution of the Repurchase Agreement.

The Consideration is stipulated by and follows the terms of the Sale and Purchase Agreement, which was determined after arm's length negotiations between the parties on normal commercial terms, having taken into account the consideration of RMB250,000,000 for acquiring the Sale Shares under the Sale and Purchase Agreement and a premium of RMB15,000,000 over such consideration reflecting time cost and other costs and expenses incurred by the Group for its investment in the Target Group.

Conditions precedent

Completion is subject to the following conditions (the "**Conditions**") being fulfilled (or waived by the Purchaser in its absolute discretion, save for Condition specified in (ii) below which cannot be waived) on or before 18 months of the date of execution of the Repurchase Agreement:

(i) the Vendors having complied with and performed all of their respective obligations under the Repurchase Agreement including having effected payment of the Consideration in full;

(ii) the Repurchase Agreement and the transactions contemplated thereunder having fully complied with all relevant laws and regulations, and

(iii) no event having occurred since the date of the Repurchase Agreement which in the sole opinion of the Purchaser is or is likely to be materially adverse to the transactions contemplated under the Repurchase Agreement, or makes or is likely to make it impracticable or inadvisable or inexpedient for the Purchaser to proceed with.

The Vendors and Vendors' Guarantors shall use their best endeavours to fulfill the above conditions falling on their part. If any of the above conditions has not been fulfilled or waived by the Purchaser (other than Condition (ii) which may not be waived) on or before 18 months of the date of execution of the Repurchase Agreement (or such other date as the parties may agree) or any of the Vendors fails to complete the re-purchase of the Sale Shares pursuant to the terms of the Repurchase Agreement, the Purchaser may forthwith terminate the Repurchase Agreement. Upon termination, the Purchaser may, but is not obliged to, resell the Sale Shares and any increase in price on resale shall belong to the Purchaser, but any deficiency in price and all expenses attending such resale shall be borne by the Vendors jointly and severally and the Group will promptly take such legal actions (including litigation) against the Vendors and the Vendors' Guarantors to enforce its rights as and when appropriate if the Vendors and the Vendors' Guarantors fail to honour their obligations. Further, pursuant to the Repurchase Agreement, the Purchaser shall be under no obligation to return the Security Money to Vendor A despite the termination of the Repurchase Agreement and any payment obligations of the Purchaser under the Sale and Purchase Agreement shall be deemed discharged.

Completion

Completion shall take place on the next business day after all Conditions have been fulfilled (or such other date as the parties shall agree).

Purchaser's Right to terminate the Repurchase

As the business and financial performance of the Target Group has been gradually improving since 2023 after the business adjustments as disclosed above and the Board remains prudently optimistic about the potential growth of the business of the Target Group (as disclosed in the section headed "Reasons for and benefits of the Repurchase Agreement" in this announcement), under the Repurchase Agreement the Purchaser shall have the right (the "**Termination Right**") (but not an obligation) at its sole and absolute discretion to unconditionally terminate the Repurchase Agreement at any time prior to Completion. The Board considers that the Termination Right allows the Group to observe the performance of the Target Group and provides commercial flexibility to the Group to retain its investment in the Target Group in the event that the business and financial performance of the Target Group improve to the satisfaction of the Purchaser prior to Completion, and therefore is beneficial and in the best interest of the Group.

In order to protect the interest of the Group by ensuring the financial performance of the Target Group meets with the Group's expectation after the exercise of the Termination Right, under the Repurchase Agreement, in the event that the Purchaser exercises the Termination Right, the 2023 Guaranteed Profit and the 2024 Guaranteed Profit contained in the Sale and Purchase Agreement shall be replaced by a new profit guarantee as follows:

(i) the audited consolidated net profit after tax (excluding non-recurring and extraordinary items and non-cash income and minority interests) of the Target Group for the period from 1 January 2025 to 31 December 2025 (the "**2025 Net Profit**") shall not be less than RMB45,000,000 (the "**2025 Guaranteed Profit**"); and

(ii) the audited consolidated net profit after tax (excluding non-recurring and extraordinary items and non-cash income and minority interests) of the Target Group for the period from 1 January 2026 to 31 December 2026 (the "**2026 Net Profit**") shall not be less than RMB54,000,000 (the "**2026 Guaranteed Profit**").

The calculation mechanism of Bonus Shares, Compensation Shares and Compensation Cash and the repurchase obligation (the "**Adjustment Mechanism**") as disclosed in the paragraphs headed "the Sale and Purchase Agreement — Profit guarantee" in the Announcement will apply to the Repurchase Agreement, with the following alterations:

(i) definition of Net Profit should be any of the 2025 Net Profit and 2026 Net Profit;

(ii) definition of Guaranteed Profit should be any of the 2025 Guaranteed Profit and 2026 Guaranteed Profit; and

(iii) definition of Audited Accounts should be any of the audited consolidated financial statements of the Target Group for the period from 1 January 2025 to 31 December 2025 (the "**2025 Audited Accounts**") and such audited consolidated financial statements of the Target Group for the period from 1 January 2026 to 31 December 2026 (the "**2026 Audited Accounts**"), each comprising income statement, statement of financial position and notes audited by an independent auditor as agreed among the Vendors and the Purchaser.

The Directors expect that the Termination Right will be exercised if the Board is satisfied that the Target Group records a notable improvement in its business prospects or financial performance satisfactory to the Group prior to Completion. In particular, it is preliminarily expected that the Purchaser may exercise the Termination Right if the Target Group is able to record steady monthly gross profit of approximately US$0.6 million, but the Board will also consider other factors such as the then market conditions, the then business plans and initiatives and the business prospect of the Target Group before determining whether to exercise the Termination Right. The Company will make further announcement in due course as and when the Purchaser elects to exercise the Termination Right.

Notwithstanding the exercise of the Termination Right, the Purchaser shall be under no obligation to return the Security Money to Vendor A despite the termination of the Repurchase Agreement and any payment obligations of the Purchaser under the Sale and Purchase Agreement shall be deemed discharged.

Purchaser's Right of inspection and review

To enable the Purchaser to better monitor the performance of the Target Group, commencing from the date of the Repurchase Agreement and for as long as the Purchaser or its nominee continues to hold shares in the Target Company (i.e. before Completion or after the Termination Right is exercised), the Vendors and the Vendors' Guarantors shall procure the Target Company to:

(i) allow the Purchaser or its duly authorised officers or representatives to inspect the facilities of the Target Group, and to inspect and take copies of its corporate documents (such as its books, record, journals, ledgers, accounts and agreements) and other financial, operational and/or business data and information at any reasonable time at its premises or any place in which such documents are situated;

(ii) allow the Purchaser or its duly authorised officers or representatives to discuss the business, operations and conditions of the Target Group with its directors, officers, employees, accountants and other professional advisers at any reasonable time; and

(iii) prepare and submit to the Purchaser (in form and substance satisfactory to the Purchaser) (a) annual revenue and capital and operations budgets; (b) annual business plans and expected developments; (c) quarterly management progress report; and (d) monthly management accounts and financial statements of the Target Group.

Gain on disposal

If the Termination Right is not exercised, upon Completion the sale of the Sale Shares is expected to enable the Company to recognise a gain on disposal of approximately RMB4.3 million (unaudited) before expenses, being the premium of the Consideration over the book value of the Group's interest in the Sale Shares as at 31 December 2022. The amount of the gain on disposal is subject to changes depending on the said book value at the time of Completion. The proceeds from the sale of the Sale Shares are expected to be applied as general working capital of the Group.

INFORMATION OF THE GROUP AND THE PURCHASER

The Company is a limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of the Stock Exchange since 12 December 2007. The principal activities of the Group are production/generation and sale of paper products, electricity and steam.

The Purchaser is a wholly-owned subsidiary of the Company. It is a company incorporated in the BVI and an investment holding company.

INFORMATION OF THE VENDORS AND THE VENDORS' GUARANTORS

Vendor A and Vendor B are each a company incorporated in Hong Kong with limited liability and is principally engaged in investment activities.

Vendors' Guarantor A is a company incorporated in Canada with limited liability and is principally engaged in investment activities.

Vendors' Guarantor B is a company incorporated in Hong Kong with limited liability and is principally engaged in investment activities.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement:

(i) the sole ultimate shareholder of each of Vendor A and Vendor B is Mr. Huang;

(ii) the sole ultimate shareholder of Vendors' Guarantor A is Ms. Ouyang;

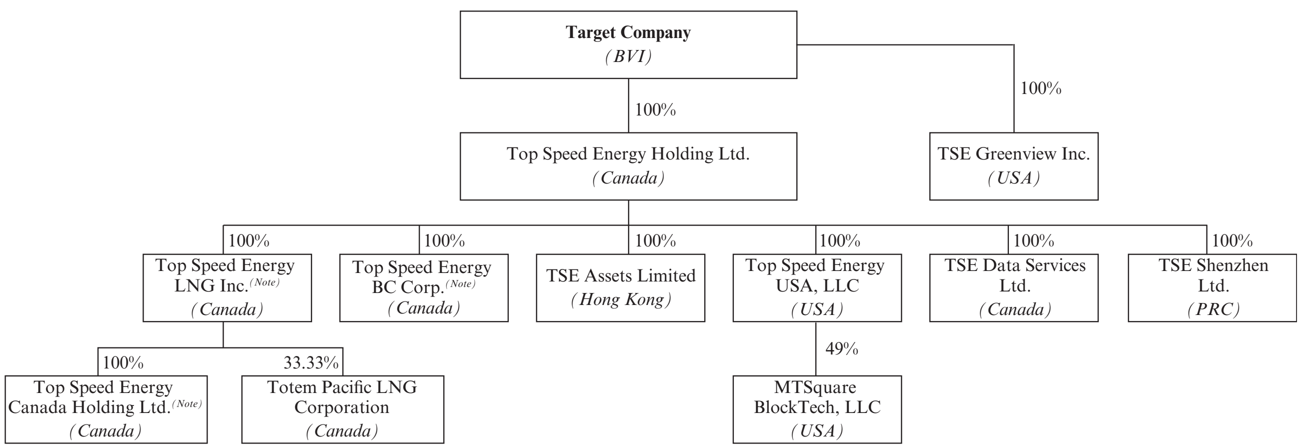
(iii) the sole ultimate shareholder of Vendors' Guarantor B is Mr. Huang; and

(iv) save for the above, each of the Vendors and the Vendors' Guarantors and their respective ultimate beneficial owners are Independent Third Parties.

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in the BVI on 5 October 2021 with limited liability. The Target Company is an investment holding and has no business save for being a holding company of its subsidiary and associate companies as illustrated in the chart below. The Target Group is currently principally engaged in provision of electricity, storage and related support to internet data centres in the United States. As at the date of this announcement, the Target Company is owned as to 45% by the Purchaser, 30.23% by Vendors' Guarantor A and 24.77% by Vendors' Guarantor B.

The corporate structure of the Target Group is as follows:



Note: The Target Group is disposing of these companies due to the putting on hold of the LNG Business.

Set out below is a summary of the audited consolidated financial information of the Target Group for the year ended 31 December 2022 which is prepared in accordance with the International Financial Reporting Standards:

	For the year ended 31 December 2022
	CA$'000
Revenue	1,653
Loss before tax	(14,784)
Loss after tax	(14,784)

REASONS FOR AND BENEFITS OF THE REPURCHASE AGREEMENT

As disclosed in the Announcement and further elaborated in the Supplemental Announcement, when the Group acquired the Sale Shares in 2021, the Company had considered, among other things, that the Transaction would broaden the scope of the Group's energy business and the Target Group's business is in line with the Company's environmental protection strategy. The Board therefore considered that the Transaction was beneficial to the Group and expected that the Transaction would represent a good business opportunity to the Group. Despite the Target Group's failure to meet the profit guarantee (as disclosed under the section headed "Reasons for the Target Group's failure to meet the profit guarantee" in this announcement), the Board takes the view that the reasons for and benefits of acquiring the Sale Shares as disclosed in the Announcement and the Supplemental Announcement remain sound and valid, having considered the following factors:

Benefits arising from the effective business adjustments

Although the Target Group had suffered from a temporary setback in its business performance caused by the unexpected development of the business environment as explained above, the Target Group has made prompt adjustments to its business which has proved to be effective. Notwithstanding the holding up of the LNG Business, the Target Group has successfully commenced the IDC Electricity Business, being one of the two arms of its energy business which involves the provision of electricity substantially generated from clean and renewable energy such as wind and solar power. The Company considers the use of wind and solar power an improvement (in terms of environmental friendliness, carbon emission and susceptibility to fluctuation in fuel prices) to the Target Group's original plan to operate the IDC Electricity Business in Canada with natural gas as one of its sources of electricity. There is also evidence showing the gradual pick up and improvement of the IDC Business which has been generating a steady source of income for the Target Group, as elaborated below. In light of this, the Directors are of the view that the IDC Electricity Business of the Target Group continues to serve to diversify the energy business of the Group, and its clean and renewable power model further complements the Group's environmental protection commitment and strategy which promote green, low-carbon, energy-saving, and emission-reducing business operation.

Failure to meet the profit guarantee

While the Target Group has failed to meet the 2022 Guaranteed Profit, the Board has in particular considered that the business adjustments of the Target Group and the financial consequences arising therefrom as set out in the section headed "Reasons for the Target Group's failure to meet the profit guarantee" in this announcement mainly ensued from the strategic business refinement of the Target Group in its inception stage (such as relocation of its IDC Electricity Business to a more compliance-friendly jurisdiction). Accordingly, the Target Group's failure to meet the profit guarantee was mainly attributable to factors which were transitory and not regular or routine, and did not impugn the prospect and profitability of its substantive operations. In fact, as disclosed above, the IDC Electricity Business has generated a steady source of income for the Target Group and been more promising than the LNG Business. Upon commencement of its IDC Electricity Business in the United States, the relevant internet data centres have been stably operating since November 2022. According to the unaudited financial information provided by the Target Company, for the six months ended 30 June 2023, the Target Group had demonstrated a material improvement in financial results, recording a revenue of approximately US$5.6 million (revenue in FY2022: approximately US$1.2 million) and gross profit of approximately US$2.7 million (gross profit in FY2022: approximately US$0.3 million). Therefore, following the inception stage of the IDC Electricity Business, the business prospect of the Target Group is expected to improve for the year ended 31 December 2023 and onwards, and the Directors remains prudently optimistic in the future prospect of the Target Group.

Having considered the above, the Purchaser entered into the Repurchase Agreement, which on the one hand represents an enforcement of its rights against the Vendors and the Vendors' Guarantors under the Sale and Purchase Agreement relating to the 2022 Guaranteed Profit, and on the other hand provides the Termination Right to the Group to retain its investment in the Target Group while observing its business and financial performance prior to Completion.

The Board also considered other factors below when negotiating the terms of the Repurchase Agreement:

(i) the Repurchase Agreement constitutes a legally binding obligation of the Vendors and the Vendors' Guarantors and re-confirms their agreement to honour their obligations under the 2022 Guaranteed Profit by re-purchasing the Sale Shares at the agreed consideration of RMB265,000,000;

(ii) the benefits of the Termination Right as explained above;

(iii) the inclusion of a new profit guarantee such that in the event the Termination Right is exercised by the Purchaser, the Target Group is still subject to the obligation to meet the 2025 Guaranteed Profit and the 2026 Guaranteed Profit);

(iv) the time and manner of the payment of the Consideration are commercially reasonable and justifiable having taken into account the time required for the Group to observe the business performance of the Target Group in deciding whether or not to exercise the Termination Right and the fact that the Purchaser will not be obliged to return the Security Money and any payment obligations of the Purchaser under the Sale and Purchase Agreement will be deemed discharged; and

(v) the Purchaser will have the right to inspect and review the performance, documents, budgets, business plans, management progress report, management accounts and financial statements of the Target Group, which will enable the Group to make an informed decision in relation to the exercise or non-exercise of the Termination Right, and continue to have such right of inspection and review after the exercise of the Termination Right.

Based on the above, the Board considers that the Repurchase Agreement and the transactions contemplated thereby are fair and reasonable and in the interests of the Company and the shareholders of the Company (the "**Shareholders**") as a whole.

DUE DILIGENCE WORKS CONDUCTED BY THE COMPANY

While having considered the above benefits of the Repurchase Agreement, the Board has also reminded itself of its duty to protect the Company and its Shareholders, in particular in view of the fact that the Target Group fails to meet the 2022 Guaranteed Profit. To safeguard its interests, the Company has conducted the following due diligence works and measures in relation to the profit guarantees and the capability of the Vendors and the Vendors' Guarantors in performing their obligations under the Repurchase Agreement:

(i) reviewed, and negotiated with the Vendors, terms and conditions under the Repurchase Agreement, including but not limited to the inclusion of the Termination Right and the profit guarantee mechanism;

(ii) interviewed and discussed with the Vendors, the Vendors' Guarantors and the management of the Target Group in relation to the business and financial performance of the Target Group for FY2022 and the coming financial years;

(iii) obtained and reviewed due diligence documents, which include, among others, business and financial information of the Target Group;

(iv) obtained and reviewed the agreements, cooperation agreements and/or memorandum of understanding entered into by the Target Group with suppliers and customers and other material contracts;

(v) obtained and reviewed development plan of the Target Group setting out the projected operating results, working capital requirements and development timeline;

(vi) conducted desktop searches and background studies on the Vendors, the Vendors' Guarantors and their ultimate shareholders;

(vii) obtained wealth proof from the Vendors, the Vendors' Guarantors and their ultimate shareholders;

(viii) held the Board meeting to discuss, among others, the background and reasons for and benefits of the Repurchase; and

(ix) reviewed and followed the internal control procedures, which include, among others, preparation of the background information of the Repurchase for the Board's approval.

After conducting the above due diligence works and measures by the Company, the Board is satisfied that the profit guarantees are fair and reasonable and that the Vendors and the Vendors' Guarantors are capable of performing their obligations under the Repurchase Agreement.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Repurchase are more than 5% but less than 25%, the Repurchase constitutes a discloseable transaction for the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors of the Company should note that the Completion is subject to the fulfillment of the conditions precedent of the Repurchase Agreement and the Termination Right, and the Completion may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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

Weifang, China, 17 August 2023

As at the date of this announcement, the directors of the Company 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*