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)

SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION ACQUISITION OF 45% SHAREHOLDING INTEREST IN THE TARGET COMPANY AND THE ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of China Sunshine Paper Holdings Company Limited (the "**Company**") dated 10 November 2021 (the "**Announcement**") in relation to the acquisition of 45% shareholding interest in the Target Company and the issue of Consideration Shares under General Mandate. Unless defined otherwise, all capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information relating to the Transaction as follows:

THE SALE AND PURCHASE AGREEMENT

Consideration

As disclosed in the Announcement, the Consideration was determined after arm's length negotiations between the Parties on normal commercial terms, having taken into account the valuation prepared by the Valuer and the reasons for and benefits of the Transaction as set out in the section headed "Reasons for and benefits of the Transaction" in the

Announcement. According to the Valuation Report, the appraised value of the market value of 45% shareholding interest in the Target Group (before taking into consideration any transaction cost) was RMB276 million as at 30 June 2021. The Consideration of RMB250 million represents a discount of approximately 9.4% to such appraised value.

In preparing the valuation of the Target Group (the "**Valuation**"), the Valuer was furnished with a profit forecast of the Target Group with a six-year forecast period ending on 31 December 2027 (the "**Profit Forecast**"), and applied the discounted cash flow analysis under the income approach based on certain assumptions, which have been set out in the Announcement, to appraise the value of the Target Group.

In relation to the Profit Forecast,

(a) the trial provision of electricity, storage and related support to internet data centres (the "**IDC Electricity Business**") is expected to commence in early 2022. The projected revenue takes into account, among others, its expected electricity supply capacity during the years ending 31 December 2022 to 2027 (the "**Forecast Period**"), the agreed services price and expected demand based on signed contract, memorandum of understanding and related correspondence with customers/potential customers. The forecasted revenue of the IDC Electricity Business takes into account the parameters and quantitative basis as follows:

Parameters	**Quantitative basis**
• Expected commencement time of early 2022	Having considered that: (a) the Target Group expects to make the application for the AUC Licence (as defined below) no later than early January 2022 and obtain the AUC Licence in late January 2022; (b) TSE Data Services Ltd. completed registration of the Business Licence in November 2021; (c) the Target Group has channels in procurement of containers for application-specific integrated circuit ("**ASIC**") machines and maintained containers for its trial provision of relevant services in early 2022; (d) the Target Group has secured a land site in Alberta, Canada, and has identified several more land sites in Canada with relevant agreements/letter of intents/memorandum of understanding entered as its internet data centres; and (e) a customer of the Target Company in relation to the IDC Electricity Business (the "**Customer**") has agreed and scheduled to deliver its ASIC machines to the internet data centre to be operated by the Target Group pursuant to the agreement entered into with the Customer. As advised by the Target Group, the setting up of containers and relevant electricity supply for operations and generating revenue will normally require one month upon delivery of ASIC machines.

Parameters	Quantitative basis
• Expected electricity supply capacity	The electricity supply capacity of the IDC Electricity Business for the period from 2022 to 2024 is forecasted based on (a) an existing secured land site in Alberta, Canada, and (b) certain identified land sites backed by relevant agreements/letter of intents/memorandum of understanding, which had an aggregate electricity supply capacity of at least 80MW to support the expected demand in the relevant forecast years (as illustrated below). From 2025 to 2027, the Target Group expects its overall electricity supply capacity will grow with similar scale as the previous three years and reach a total of 150MW.
• Agreed services price	A fixed services fee of US$0.065 per KWh is adopted in the Profit Forecast by making reference to the signed contract and memorandum of understanding with customers.
• Expected demand	The expected demand and provision of electricity to customers' ASIC machines for the period from 2022 to 2024 is forecasted to be 45MW, 60MW and 75MW, respectively, which is supported by and taken into account the signed contract, memorandum of understanding and related correspondence with customers/potential customers by the Target Group. From 2025 to 2027, the expected additional provision of electricity to the customers' ASIC machines is forecasted to be steadily grown by 15MW, 30MW and 30MW, respectively, reaching a total of 150MW by the end of 2027.

(b) the sale of liquefied natural gas (the "**LNG**") (the "**LNG Business**") is expected to commence operations in 2024 having taken into account the expected time required to establish the required infrastructures and construction period. The projected revenue takes into account, among others, the production capacity of LNG under its leased land and the expected selling price of LNG during the Forecast Period. The forecasted revenue of the LNG Business takes into account the parameters and quantitative basis as follows:

Parameters	**Quantitative basis**
• Expected time required for infrastructure and construction period	Having considered that: (a) the Target Group obtained the Facility Permit (as defined below) for the BC LNG Plant (as defined below) on 10 September 2021; (b) the Target Group expects to obtain the Construction Permit (as defined below) for the BC LNG Plant by first quarter of 2022; and (c) expected construction period of around one year after the grant of the Construction Permit, the infrastructure of the BC LNG Plant shall be ready in 2023 and the BC LNG Plant is expected to commence operations and generate revenue in 2024.
• Production capacity of LNG under its leased land	The production capacity of the LNG Business is forecasted based on (a) the expected production capacity of LNG of 90,000 ton/year to be provided by the BC LNG Plant under an engineering services contract entered into between the Target Group and an engineering company, and (b) a growing utilisation rate of its LNG facilities from 55% in 2024 to 80% in 2027 taking into account certain time to be required for achieving higher utilisation rate by a newly operated plant and for capturing market demand for the LNG Business.
• Expected selling price	A fixed selling price of LNG of US$680 per ton is applied by making reference to a market research report.

(c) the cost of sales in relation to the IDC Electricity Business mainly comprise cost of electricity, depreciation expenses and direct staff costs relating to the IDC Electricity Business. The projected cost of sales in relation to the IDC Electricity Business take into account, among others, the expected electricity supplies, costs of natural gas and hydropower, expected number of staff needed for operation of the IDC Electricity Business and market price of labour during the Forecast Period;

(d) the cost of sales in relation to the LNG Business mainly comprise cost of natural gas, depreciation expenses and costs relating to natural gas delivery service. The projected cost of sales in relation to the LNG Business take into account, among others, the expected capacity of LNG supplies and expected delivery costs for natural gas during the Forecast Period;

(e) certain major operating expenses of the Target Group are considered, including but not limited to, rental, depreciation expenses and staff costs. Rental expenses are projected based on the rents of the existing land leased by the Target Group, and research on certain land sites that are intended to be leased by the Target Group during the Forecast Period. Depreciation expenses relate to other machinery and equipment required to support operation and depreciated in accordance with the accounting standards applicable in the relevant jurisdictions. Staff costs are projected based on expected number of staff needed to support operation and market price of labour during the Forecast Period;

(f) the effective tax rate is referenced to the applicable tax rates in relevant regions in Canada; and

(g) some other general assumptions are also applied, including but not limited to, no abnormal or extraordinary items will occur during the Forecast Period, the Target Group will be able to retain its key management and personnel during the Forecast Period, and there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Canada or any other countries in which the Target Group operates or which are otherwise material to the business or operations of the Target Group during the Forecast Period.

In considering and reviewing the Profit Forecast, the Company has performed due and careful enquiry and the following due diligence, which include, among others, (i) obtaining and reviewing development plan of the Target Group stipulating the projected operating results, working capital requirements and development timeline of the two businesses; (ii) obtaining and reviewing the financial information of the Target Group; (iii) obtaining and reviewing underlying documents in relation to the Profit Forecast including, among others, the signed contracts, cooperation agreements, memorandum of understanding, related correspondence with customers and supporting documents indicating the projected revenue and costs; and (iv) conducting preliminary legal due diligence with respect to, among others, due incorporation, products and services, licences and consents, material contracts, litigation and/or arbitration proceedings and other business affairs of the Target Group. Having considered, among others, the above-mentioned quantitative basis of the forecasted revenue of the Profit Forecast, the Board is of the view that the assumptions adopted in the Profit Forecast are fair, reasonable, supportable and achievable.

Consideration Shares

The issue price of HK$1.58 per Consideration Share was determined after arm's length negotiation between the Parties. The Directors consider that it is a common market practice to determine the issue price of consideration shares with reference to the recent trading price of the relevant shares, the details of which have been set out in the section headed "The Sale and Purchase Agreement — Consideration Shares" in the Announcement. In negotiation with the Vendors, the following factors regarding the trading price and trading volume of the Shares are also considered: (i) the issue price of HK$1.58 per Consideration Share falls within range of the lowest and highest closing prices of the Shares in the 12-month period immediately prior to and including the date of the Sale and Purchase Agreement (the "**Period**"); and (ii) the average daily trading volume of the Shares per month/period accounted for approximately 0.42% of the total number of issued Shares as at the end of relevant month/period during the Period. Furthermore, the Company has also considered that the trading prices of the shares of certain comparable companies listed on the Main Board of the Stock Exchange which are principally engaged in the paper manufacturing industry also represented a significant discount to their net asset value per share. The discount of issue price of the Consideration Shares to net asset value per Share is generally in line with the market and therefore is considered as fair and reasonable by the Board. In light of the above, the Board is of the view that the issue price of HK$1.58 per Consideration Share is fair and reasonable.

Having considered that (i) the Consideration was determined having taken into account, among others, the valuation of the Target Group, and the Consideration of RMB250 million represents a discount of approximately 9.4% to the appraised value of the market value of 45% shareholding interest in the Target Group (before taking into consideration any transaction costs) of RMB276 million; (ii) the issue price of the Consideration Shares was determined after arm's length negotiation between the Parties with reference to the recent trading price and liquidity of the Shares; and (iii) the future prospect of the Target Group and the Transaction would broaden the scope of the Group's energy business, the Directors consider that it is fair and reasonable and is in the interests of the Company and the Shareholders to issue the Consideration Shares.

Profit guarantee

If the Net Profit in the relevant guarantee period is more than 70% of the Guaranteed Profit in the corresponding guarantee period but is less than or equal to 90% of the Guaranteed Profit in the corresponding guarantee period and the transfer of the Compensation Shares in the relevant guarantee period results in the Purchaser holding more than 49% of the entire issued share capital of the Target Group, subject to the limit pursuant to the Sale and Purchase Agreement, the Vendors and the Vendors' Guarantors shall jointly and severally compensate and indemnify the Compensation Cash. In the event that the Net Profit in the relevant guarantee period is less than or equal to 70% of the Guaranteed Profit in the corresponding guarantee period, the Vendors and Vendors' Guarantors shall jointly and severally repurchase or procure its affiliates to repurchase all shares of the Target Company which are owned by the Purchaser at the consideration of RMB265,000,000, RMB280,900,000 and RMB297,754,000 for the relevant guarantee period, respectively. Such mechanism can safeguard the investment of the Group in the Target Company.

The Board considers that the Group shall be able to ensure fulfilment of the repayment obligations for the Compensation Cash or the repurchase obligations by certain ways such as taking legal action in order to enforce the Vendors and the Vendors' Guarantors to fulfill the compensation or repayment obligations under the Profit Guarantee. In considering the financial capability of the Vendors and the Vendors' Guarantors, the Company has performed the following due diligence, including but not limited to, conducting desktop searches, public searches and background studies on the Vendors, the Vendors' Guarantors and their ultimate shareholders, obtaining wealth proof from such individuals and entities and obtaining audited reports from the Vendors and the Vendors' Guarantors.

Conclusion

In light of the above, the Board (including the independent non-executive Directors) is of the view that (i) the Consideration is fair and reasonable; (ii) it is fair and in the interests of the Company and the Shareholders to issue the Consideration Shares; and (iii) the Transaction is in the interests of the Company and the Shareholders and the Company has conducted sufficient due diligence works and taken appropriate safeguards and measures (as disclosed under the section headed "Due diligence works and measures performed by the Company" below) in securing the Company's interests over the investments in the Target Group and the respective compensation arrangement.

INFORMATION OF ULTIMATE SHAREHOLDERS OF THE VENDORS AND THE VENDORS' GUARANTORS

The Company was first acquainted with the Vendors through the introduction by Mr. Xu Fang ("**Mr. Xu**"), who was the non-executive director of the Company during the period from 19 November 2007 to 16 July 2013. Mr. Xu has maintained a good business relationship with the Company after his resignation as the non-executive director. Mr. Xu has been the chairman of the Target Group since 1 January 2021.

Set forth below the information of the ultimate shareholders of the Vendors and the Vendors' Guarantors:

- Huang Liwei (黃立偉) ("**Mr. Huang**"), aged 43, is the sole ultimate shareholder of the Vendors and Vendors' Guarantor B. Mr. Huang is a private investor and an Independent Third Party. He has over 20 years of experience in financial industry. Over the past 20 years, Mr. Huang worked in, among others, Citibank (China) Co., Ltd (花旗銀行(中國)有限公司), Shanghai Prosnav Capital Co., Ltd* (上海帆茂投資管理有限公司) and Shenzhen Qianhai Prosnav Cci Capital Ltd.* (深圳前海帆茂首瑞投資管理有限公司), where he accumulated management and investment experience in the industry. Mr. Huang is one of the founding members of the Target Group and co-founded the Target Group in June 2019, and is mainly responsible for providing advice on the business strategies of the Target Group.

- Ouyang Rui (歐陽瑞) ("**Ms. Ouyang**"), aged 45, is the sole ultimate shareholder of Vendors' Guarantor A. Ms. Ouyang is a private investor and an Independent Third Party. She has over 15 years of experience in financial industry. Over the past 15 years, Ms. Ouyang worked in, among others, Shenzhen Securities Information Co., Ltd.* (深圳證券信息有限公司), DaCheng Innovative Capital Management Co., Ltd* (大成創新資本管理有限公司) and Shenzhen Everbright Innovative Asset Management Co. Ltd.* (深圳光大創新資產管理有限公司), where she accumulated investment and financial experience in the industry. Since September 2019, she joined the Target Group as chief financial officer, and is mainly responsible for overseeing and managing the overall financial matters.

The Directors, having made all reasonable enquiries, confirmed to the best of their knowledge and belief that there is no relationship between Mr. Huang and Ms. Ouyang.

INFORMATION ON THE TARGET GROUP

Business of the Target Group

The major operating subsidiaries of the Target Group had been engaged in the business of delivery of LNG in Canada (the "**LNG Delivery Business**") since 2018. As a strategy to mitigate adverse impact of the outbreak of COVID-19, the Target Group suspended most of the LNG Delivery Business and maintained minimal operation since early 2020. The Target Group thereby recorded minimal revenue and had net losses during the years ended 31 May 2020 and 2021.

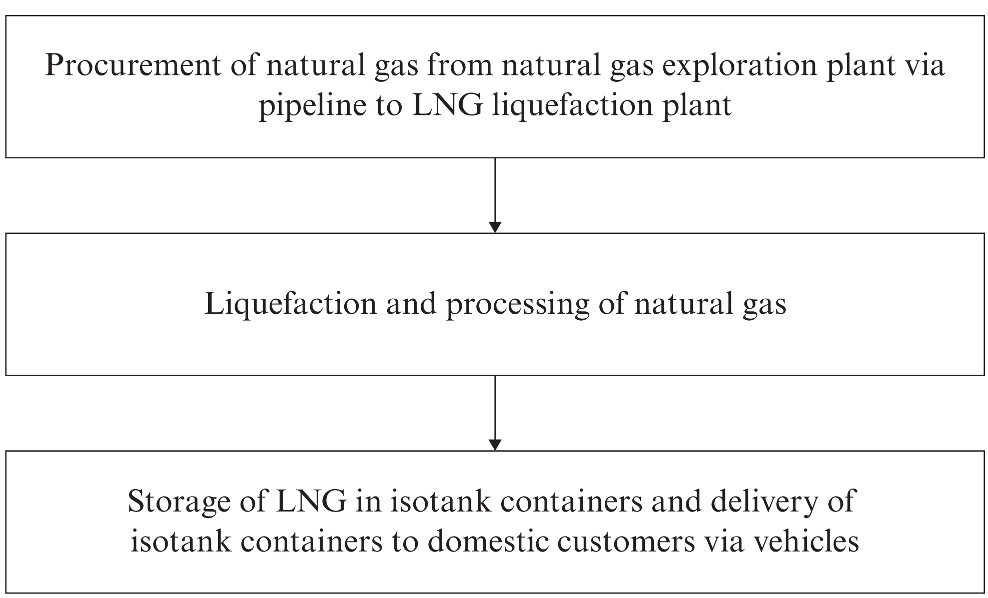
Following the implementation of measures to ease impact of the pandemic since mid-2021, the Target Group resumed preparation of establishing facilities for natural gas liquefaction and finalising terms with clients for the provision of electricity, storage and related support to internet data centres.

The Target Group is principally engaged in the LNG Business and the IDC Electricity Business, with its headquarters in Canada. Details of the business model of the LNG Business and the IDC Electricity Business are set forth below.

Details of the business model of the LNG Business

(a) Operation and logistics flow

The following diagram illustrates the business model of the Target Group's LNG Business:



The LNG Business of the Target Group refers to sale of LNG to domestic customers in Canada. The Target Group will procure natural gas from natural gas explorers in Canada, and natural gas will be delivered directly to the LNG liquefaction plant operated by the Target Group via pipeline. After processing the liquefaction of natural gas, natural gas will be converted to LNG, which will be subsequently stored in isotank containers and delivered to domestic customers via vehicles. The Target Group's LNG liquefaction plant is planned to be situated in British Columbia, Canada (the "**BC LNG Plant**"), while the Target Group has leased the land site for the planned construction of the BC LNG Plant. The customers relating to the LNG Business will be charged based on the volume of LNG sold to them. The cost of sales in relation to the LNG Business mainly comprise cost of natural gas, depreciation expenses and costs relating to natural gas delivery service.

(b) Details of the expected customers and suppliers

The target customers of the LNG Business are mainly domestic customers in Canada, mainly comprising commercial and residential consumers in cities and remote areas.

The suppliers of the LNG Business are mainly natural gas explorers and natural gas delivery service providers.

(c) Details of licences required

Based on information from the Target Group, the Target Group is required to obtain the following licences to carry on the LNG Business:

(i) A permit issued by BC Oil & Gas Commission to construct, maintain and operate a facility(s), and piping and equipment associated with the facility(s) relating to the LNG liquefaction plant (the "**Facility Permit**"). On 10 September 2021, the Target Group obtained the Facility Permit for the BC LNG Plant.

(ii) A construction permit issued by the municipal government (the "**Construction Permit**") to construct the LNG liquefaction plant. The Target Group expects to obtain the Construction Permit by first quarter of 2022.

(iii) A business licence issued by the municipal government (the "**Business Licence**"). On 2 December 2020, Top Speed Energy Canada Holding Ltd., a wholly-owned subsidiary of the Target Company engaging in the LNG Business obtained the Business Licence, which was valid until 31 December 2021. The Target Group confirmed that there will be no difficulty in and they are preparing for the renewal of the said licence. On 7 September 2021, Top Speed Energy BC Corporation, a wholly-owned subsidiary of the Target Company engaging in the LNG Business obtained the Business Licence, which will be valid until 4 September 2022.

Details of the business model of the IDC Electricity Business

(a) Operation and logistics flow

The following diagram illustrates the business model of the Target Group's IDC Electricity Business:

Identification of suitable locations for internet data centres which are accessible to natural gas or hydropower as electricity supply

↓

Procurement of containers for ASIC machines and connection of ASIC machines to electricity and internet

↓

Provision of electricity, storage and related support services to ASIC machines owned and provided by customers and placed in internet data centres

The IDC Electricity Business of the Target Group refers to provision of electricity, storage and related support to internet data centres in Canada operated by the Target Group, in which the Target Group will provide electricity generated from natural gas and hydropower to its customers to support operation of the customers' ASIC machines, together with storage and related support services such as facility security and maintenance and management of the ASIC machines. The customers relating to the IDC Electricity Business will be charged based on electricity consumption of the ASIC machines owned by the customers and placed in the internet data centres. The cost of sales in relation to the IDC Electricity Business mainly comprise cost of electricity, depreciation expenses and direct staff costs relating to the IDC Electricity Business.

Accordingly, the Target Group will procure (a) natural gas and (b) hydropower (i.e. hydro-electricity) from third-party suppliers as the electricity for operations under the IDC Electricity Business. Details are as below:

- Natural gas as electricity: Suppliers of natural gas are natural gas explorers in Canada with their production sites close to/accessible to the internet data centres of the Target Group. The Target Group will procure natural gas directly from the natural gas explorers. Natural gas will be delivered via pipelines to the internet data centres of the Target Group, and later the natural gas will be converted into electricity by the electricity generators set up by the Target Group in the internet data centres for its business use.

- Hydropower (i.e. hydro-electricity) as electricity: Suppliers of hydropower/hydro-electricity are electric utilities in Canada such as BC Hydro. The Target Group will procure hydropower (i.e. hydro-electricity) directly from the electric utilities, and obtain the hydropower (i.e. hydro-electricity) via the power grid of the electric utilities as electricity for its business use.

The internet data centres will be operated on land sites leased by the Target Group under the IDC Electricity Business. Ownership of such land sites rests on the relevant landlords. The major facilities for operating the internet data centres include (a) electricity generators (for converting natural gas into electrical power), (b) transformers (for changing electricity voltage), and (c) containers for ASIC machines, which will be procured by the Target Group from third-party suppliers (except for the recent occasional situation involving the leasing of several electricity generators as further illustrated below). As for any ASIC machines to be placed in the internet data centres, the ownership of such ASIC machines (including any crypto coins generated therefrom) belong to the relevant customers.

To operate the IDC Electricity Business, the Target Group expects to incur rental expenses for the leased land sites of approximately US$17,000, US$34,000, US$43,000, US$51,000, US$68,000 and US$85,000 for the Forecast Period, respectively. The growth is in line with the expected electricity supply capacity/demand to support the IDC Electricity Business during the Forecast Period.

The expected procurement costs for electricity generators are approximately US$4.2 million for the year ending 31 December 2022, and approximately US$1.4 million each year for the rest of the Forecast Period. As at the latest practicable date, the Target Group has built up channel and is negotiating with a manufacturer of electricity generators in the PRC with respect to the procurement of electricity generators. While in order to catch up with the expected timeline to launch services of the IDC Electricity Business in early 2022, as a one-time alternative approach, the Target Group leased several electricity generators from a third-party supplier in Canada for the early set-up of the internet data centres. Amount involved for leasing the electricity generators will be approximately US$0.7 million for the year ending 31 December 2022.

The procurement costs for transformers are expected to be approximately US$2.8 million for the year ending 31 December 2022, and approximately US$0.9 million each year for the rest of the Forecast Period.

As for the containers for ASIC machines, the expected procurement costs are approximately US$2.8 million for the year ending 31 December 2022, and approximately US$0.9 million each year for the rest of the Forecast Period.

(b) Details of the expected customers and suppliers

The target customers of the IDC Electricity Business mainly comprise corporate and individual customers mainly from overseas such as the PRC and the United States, who are seeking for low costs electricity and storage and related support services for their ASIC machines.

The suppliers of the IDC Electricity Business are mainly suppliers for natural gas and hydropower (as described above), electricity generators and containers for ASIC machines.

(c) Details of licenses required

Based on information from the Target Group, the Target Group is required to obtain the following licences to carry on the IDC Electricity Business:

(i) A licence to be issued by Alberta Utilities Commission under Rule 007: Applications for Power Plants, Substations, Transmission Lines, Industrial System Designations, Hydro Developments and Gas Utility Pipelines (the "**AUC Licence**") for the operation of power plants with the capacity exceeding 10 megawatt ("**MW**"). The Target Group is in the course of preparing the submission documents for the application of the AUC Licence for an internet data centre to be operated by the Target Group in Alberta, Canada, and expects to make the application for the AUC Licence no later than early January 2022 and obtain the said licence in late January 2022. The setting up of the internet data centres, including, among others, the installment of electricity generators, transformers and containers for ASIC machines, is expected to be completed in February 2022.

(ii) The Business Licence. In November 2021, TSE Data Services Ltd. completed registration of the Business Licence.

Major assets of the Target Group

As at 31 May 2021, the Target Group's assets mainly comprised (i) property, plant and equipment of approximately CA$33.1 million, which mainly represented isotank containers for LNG for storage and delivery of LNG to domestic customers via vehicles; and (ii) restricted banks deposits of approximately CA$3.8 million, which represented bank deposits pledged in banks as a prerequisite for doing business with a supplier in relation to provision of natural gas delivery service, which are also treated as prepayments to natural gas delivery services by the supplier. Apart from the above assets directly related to the LNG Business, the Target Group also maintained containers for ASIC machines for the IDC Electricity Business.

Estimated capital expenditure of the Target Group

The table below sets forth the estimated capital expenditure for the IDC Electricity Business for the Forecast Period:

	For the year ending 31 December					
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*	*US$ million*
Procurement of containers for ASIC machines	2.8	0.9	0.9	0.9	0.9	0.9
Procurement of transformers	2.8	0.9	0.9	0.9	0.9	0.9
Procurement of electricity generators	4.2	1.4	1.4	1.4	1.4	1.4
Set up costs for connection of power grid for hydro-electricity *(note)*	—	—	—	—	1.2	1.2
Other capital expenditure	1.4	0.5	0.5	0.5	0.5	0.5
Total	**11.2**	**3.7**	**3.7**	**3.7**	**4.9**	**4.9**

Note: The Target Group is expected to procure hydropower (i.e. hydro-electricity) only since the year ending 31 December 2026, prior to that, the Target Group is expected to procure natural gas for its business use.

The table below sets forth the estimated capital expenditure for the LNG Business for the Forecast Period:

	For the year ending 31 December					
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*	*US$ million*
Design and construction costs of liquefaction plant	—	10.5	—	—	—	—
Procurement and set up costs for infrastructure (such as sewage systems)	—	2.9	—	—	—	—
Procurement and set up costs for liquefaction equipment	—	—	25.2	—	—	—
Total	**—**	**13.4**	**25.2**	**—**	**—**	**—**

The table below sets forth details on how the Target Group expects to fulfill the capital expenditure of the Target Group under the IDC Electricity Business and the LNG Business during the Forecast Period:

	For the year ending 31 December					
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*	*US$ million*
Estimated capital expenditure:						
IDC Electricity Business	11.2	3.7	3.7	3.7	4.9	4.9
LNG Business	—	13.4	25.2	—	—	—
Total estimated capital expenditure	**11.2**	**17.1**	**28.9**	**3.7**	**4.9**	**4.9**
Expected financial resources:						
(a) internal resources — existing bank/cash balance on hand	0.3	—	—	—	—	—
(b) bank borrowings from licensed banks and/or financial institutions	8.6	7.0	15.5	—	—	—
(c) funding program launched by the Canadian government	—	5.3	10.0	—	—	—
(d) shareholders' loan	2.3	—	—	—	—	—
(e) internal resources — net cash flows from operations	—	4.8	3.4	3.7	4.9	4.9
Total	**11.2**	**17.1**	**28.9**	**3.7**	**4.9**	**4.9**

The Target Group is expected to fulfill its capital expenditure in future mainly by its internal resources including existing bank/cash balance on hand and net cash flows from operations, bank borrowings from licensed banks and/or financial institutions, funding program launched by the Canadian government, and shareholders' loan from their personal resources. Below are details of each of the expected financial resources:

(a) Internal resources: existing bank/cash balance on hand

Based on the information from the Target Company, it will utilise US$0.3 million of the existing bank/cash balance on hand to fund the early set-up of the internet data centres for commencing business in early 2022.

(b) Bank borrowings from licensed banks and/or financial institutions

Bank borrowings from licensed banks and/or financial institutions are expected to fulfill capital expenditure of approximately US$8.6 million, US$7.0 million, US$15.5 million, nil, nil and nil during the Forecast Period, respectively.

The Target Group has commenced negotiation with licensed commercial banks in Canada to obtain bank borrowings for future development of its business since August 2021. The banks shall normally consider to offer borrowings to the Target Group subject to further negotiation between the parties and taking into account, among others, prevailing market conditions, business model and any guarantee offered by the Target Group. Based on the negotiation between the Target Group and a licensed commercial bank in Canada (the "**Bank**"), the Bank shall consider to offer borrowings to the Target Group with the amount up to three to five times of the Target Group's earnings before interest, taxes, depreciation and amortisation under the IDC Electricity Business ("**EBITDA**"), subject to certain factors such as prevailing market conditions, the borrower's business model and any guarantee given. After considering the newly commenced IDC Electricity Business and for the sake of prudence, the Target Group adopts only one time of the EBITDA in estimating the amount of bank borrowings, which is equivalent to approximately US$8.6 million in 2022 to fund its capital expenditure for the year ending 31 December 2022. As advised by the Target Group, it may consider pledging its owned assets such as isotank containers for LNG and containers to the banks to obtain the borrowings where necessary.

Although the Target Group expects its borrowing capability will increase as its business is growing, for the sake of prudence, the Target Group applied less than one time of the EBITDA in estimating the amount of bank borrowings during the years ending 31 December 2023 and 2024, which are expected to be approximately US$7.0 million and US$15.5 million respectively.

(c) Funding program launched by the Canadian government

Funding program launched by the Canadian government, being Strategic Innovation Fund, is expected to fulfill capital expenditure of nil, approximately US$5.3 million, US$10.0 million, nil, nil and nil during the Forecast Period, respectively.

The Target Group expects to apply for Strategic Innovation Fund in second half of 2022, which is available for companies of all sizes across all of Canada's industrial and technology sectors and obtain the funding in the years of 2023 and 2024. The successful applicants of which could receive a funding up to 50% of the non-recurring costs related to the project in industrial and technology sectors with a minimum amount of CA$10 million. For the sake of prudence, the Target Group expects to obtain 40% of the estimated capital expenditure under the LNG Business (which is equivalent to approximately US$15.3 million) from Strategic Innovation Fund for the years ending 31 December 2023 and 2024.

(d) Shareholders' loan

Shareholders' loan is expected to fulfill capital expenditure of approximately US$2.3 million for the year ending 31 December 2022, and nil for the rest of the Forecast Period. The Shareholders' loan will be provided by Vendors' Guarantor A and Vendors' Guarantor B.

Pursuant to the Shareholders' Agreement, the board of the Target Company shall determine at any time during the continuance of the said agreement that borrowings from a bank or other similar sources is not desirable, the board of the Target Company may request further capital requirements from the shareholders of the Target Company in proportion to their then respective holdings of the Target Company provided that the Purchaser may accept or reject such request at its sole discretion. However, the Company confirms that the Group will not and does not intend to provide any shareholders' loan to fulfill the Target Group's capital expenditure set forth above as mutually agreed between the Company and the Vendors.

(e) Internal resources: net cash flows from operations

Net cash flows from operations of the Target Group are expected to fulfill capital expenditure of nil, approximately US$4.8 million, US$3.4 million, US$3.7 million, US$4.9 million and US$4.9 million during the Forecast Period, respectively. Such net cash flows from operations are expected to be mainly generated from the IDC Electricity Business, which is expected to commence business since early 2022.

Management expertise of the staff of the Target Group

Based on information from the Target Group, details of the management expertise of the staff of the Target Group in operating the LNG Business and the IDC Electricity Business are set forth below:

Dr. Weilong Pang ("**Dr. Pang**") has joined the Target Group since March 2020 as the chief technology officer of Top Speed Energy Holding Ltd., a wholly-owned subsidiary of the Target Company. Dr. Pang has over 18 years of experience in energy industry. He worked in, among others, Industrial Research Limited*, NEOgas Inc. and Xinao Group Co., Ltd.*, where he gained experience in establishment and management of small-scale LNG liquefaction plant and liquefaction and non-pipeline transmission and distribution technologies.

Dr. Jian Song ("**Dr. Song**") has joined the Target Group since April 2020 as the chief executive officer of Top Speed Energy USA LLC, a wholly-owned subsidiary of the Target Company. Dr. Song has over 14 years of experience in energy industry. He worked in, among others, ConocoPhillips Company, NewFuture Energy Services Inc. and Trisun Energy Services, LLC, where he accumulated experience in field of oil and gas equipment, LNG and industrial environmental protection.

Ms. Max Hu ("**Ms. Hu**") has joined the Target Group since September 2021 as the marketing director of TSE Data Services Ltd., a wholly-owned subsidiary of the Target Company. Ms. Hu has around 5 years of experience in blockchain industry. She worked in, among others, Jinpanzi (Beijing) Technology Co., Ltd.* and Beijing KeNiSi Network Technology Limited*, where she gained experience in the industry.

Mr. Jack Su ("**Mr. Su**") has joined the Target Group since September 2021 as the chief technology officer of TSE Data Services Ltd., a wholly-owned subsidiary of the Target Company. Mr. Su worked in, among others, PetroChina Company Limited*, Power 360* and Jinpanzi (Beijing) Technology Co., Ltd.*, where he accumulated experience in planning, construction, operation and management of overseas mining sites for digital currencies.

THE SHAREHOLDERS' AGREEMENT

Pursuant to the Shareholders' Agreement, the quorum of the Target Group shall be two directors and one of which must be nominated by the Purchaser, while no business shall be transacted at any board meeting unless a quorum of directors is present, such term is considered to be no less favourable to the Group after considering that the Purchaser will only acquire 45% shareholding interest in the Target Company and will not have majority control on voting power upon Completion. In addition, as the management team of the Target Group possesses extensive industry experience, the Directors believe the experienced management team will enable better decision-making of and add value to the board of directors of the Target Company and the board composition contemplated under the Shareholders' Agreement will provide the Target Group with sufficient diversity of thoughts to enhance future development. Based on the foregoing, the Board is of the view that the terms of the Shareholders' Agreement are fair and reasonable.

REASONS FOR AND BENEFITS OF THE TRANSACTION

As disclosed in the section headed "Reasons for and benefits of the Transaction" in the Announcement, the principal activities of the Group are production/generation and sale of paper products, electricity and steam, while the Target Group is principally engaged in sale of liquefied natural gas and provision of electricity, storage and related support to internet data centres, with its headquarters in Canada. Upon Completion, the Target Company will become an associate company of the Company, and the Transaction would broaden the scope of the Group's energy business and create returns to the Group by way of share of profit from an associate and dividends in the future, the Transaction is therefore expected to enhance the Group's profitability.

The Board had duly considered the benefits of the Transaction and the risks thereof before entering into the Transaction. Whilst the Transaction is not risk-free, the Consideration settlement and the Profit Guarantee mechanism are determined and were put in place after due and careful consideration by the Board after balancing the benefits to the Group from the Transaction and the commercial negotiation with the Vendors. The terms of the Transaction are arrived after arm's length negotiations between the Parties on normal commercial terms, the determination result of which serves as commercial decision between both Parties. In considering the reasons for and benefits of entering into the Transaction, the Company took into account that:

(i) the Group has a need to strengthen its income streams and enhance profitability. As disclosed in the Announcement, the Group faces challenges in the paper manufacturing industry and considers there is a need to identify business opportunities to strengthen the Group's income stream;

(ii) the Transaction would broaden the scope of the Group's energy business and create returns to the Group by way of share of profit from an associate and dividends. The Board took into account the future prospect of the Target Group, particularly its clean energy business under both the IDC Electricity Business and the LNG Business, and considered the Transaction represents a good business opportunity to the Group; and

(iii) the Target Group's business is in line with the Company's environmental protection strategy. Whereas the Company did not identify alternative target as at the latest practicable date, the Target Group represented the best investment opportunity to the Group in achieving the aforesaid purpose.

Having considered the above benefits of the Transaction, the Board has also reminded itself of its duty to protect the Company and its Shareholders against the possible risks. To safeguard its interests over the investments in the Target Group, the Company has conducted due diligence works and engaged an independent professional valuer to prepare a valuation on the Target Group. The satisfaction of due diligence result including the valuation result also serves as one of the conditions precedents to the Transaction.

Although the Board is of the view that the Transaction benefits to the Group as illustrated above, to further assure the Company's interest, the Company adopted a profit guarantee mechanism in the Transaction aiming to provide certain incentives and to assure the Target Group to place business efforts and achieve better financial results, given the Target Group is still under the set-up stage of its business. As explained above, the Profit Guarantee itself is regarded as an assurance to the Company's investment in the Target Group.

DUE DILIGENCE WORKS AND MEASURES PERFORMED BY THE COMPANY

The Company has performed the following due diligence works and measures in relation to the Transaction:

(i) reviewed, and negotiated with the Vendors, terms and conditions under the Sale and Purchase Agreement and the Shareholders' Agreement, in particular, among others, the need of profit guarantee mechanism and the basis of determining the Consideration under the Sale and Purchase Agreement;

(ii) conducted research on discount of trading prices to net asset value per share of the listed comparable companies and assessed the fairness and reasonableness of the issue price of the Consideration Shares;

(iii) reviewed historical trading performance of the Shares in the Period;

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

(v) reviewed and followed the internal control procedures relating to a proposed acquisition, which include, among others, preparation of the background information of the Transaction for the Board's approval and conducting due diligence on the Target Group in relation to, among others, industry prospect, business model and the Profit Forecast;

(vi) obtained and reviewed due diligence documents, which include, among others, corporate structure, human resources, business and financial information of the Target Group;

(vii) obtained and reviewed constitutional documents, register of shareholders and register of directors of the Target Group;

(viii) obtained and reviewed business profiles of the management of the Target Group;

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

(x) engaged a third party search agent to conduct public search on certain group companies of the Target Group;

(xi) engaged a Canada law firm to conduct legal due diligence with respect to, among others, due incorporation, products and services, licences and consents, material contracts, litigation and/or arbitration proceedings and other business affairs of the Target Group and obtained and reviewed the legal opinion;

(xii) obtained and reviewed development plan of the Target Group stipulating the projected operating results, working capital requirements and development timeline of the two businesses;

(xiii) obtained and reviewed the financial information of the Target Group for the years ended 31 May 2020 and 2021 prepared by reporting accountants engaged by the Company;

(xiv) obtained and reviewed underlying documents in relation to the Profit Forecast including, among others, the signed contracts, cooperation agreements, memorandum of understanding, related correspondence with customers and supporting documents indicating the projected revenue and costs;

(xv) obtained and reviewed the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited and discussed with the Valuer to understand, among others, its valuation methodology, basis and major assumptions adopted thereto;

(xvi) considered the letter issued by ST Lo & Co., the reporting accountants engaged by the Company dated 10 November 2021 regarding the arithmetical accuracy and calculations of the Profit Forecast;

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

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

(xix) obtained audited reports from the Vendors and the Vendors' Guarantors.

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

Weifang, Shandong Province, China, 4 January 2022

As at the date of this announcement, the executive Directors are Mr. Wang Dongxing (Chairman), Mr. Shi Weixin, Mr. Wang Changhai, Mr. Zhang Zengguo and Mr. Ci Xiaolei; the non-executive Director is Ms. Wu Rong; and the independent non-executive Directors are Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie.

* *For identification purposes only*