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 IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report of China Sunshine Paper Holdings Company Limited (the "**Company**", and together with its subsidiaries, the "**Group**") for the year ended 31 December 2022 (the "**2022 Annual Report**"). Unless otherwise defined in this announcement or the context requires, capitalised terms used herein shall have the same meanings as those defined in the 2022 Annual Report.

In addition to the information provided in the 2022 Annual Report, the board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide additional information as below:

USE OF PROCEEDS

On 8 April 2021 (after trading hours), Yuet Sheung International Securities Limited (the "**Placing Agent**") and the Company entered into a placing agreement (the "**Placing Agreement**") pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best effort basis, aggregate maximum of 120,000,000 placing shares (the "**Placing Shares**") to placees (the "**Placees**") who and whose ultimate beneficial owners will be third parties independent of the Company and not connected with the Company and its connected persons (the "**Placing**"). All conditions to the Placing Agreement have been fulfilled and completion of the Placing took place on 28 April 2021. A total of 85,802,000 Placing Shares have been successfully placed by the Placing Agent to not fewer than six Placees at the placing price of HK$1.5 per Placing Share pursuant to the terms and conditions of the Placing Agreement, representing approximately 9.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing.

The net proceeds from the Placing, after deduction of the placing commission and other related expenses, amounted to approximately HK$125.9 million. During FY2021, approximately RMB48.9 million were utilised for general corporate purpose. As at the end of FY2022, the rest net proceeds have been fully utilised as the general working capital of the Group, which use is the same with the disclosure in the announcement of the Company dated 28 April 2021.

IMPAIRMENT LOSS ON INTERESTS IN ASSOCIATE

On 10 November 2021, the Group entered into the Purchase Agreement with the Vendors and the Vendors' Guarantors to acquire 45% equity interest in Top Speed. The consideration of RMB250 million was determined after arm's length negotiations between the parties on normal commercial terms, having taken into account the valuation prepared by LCH (Asia-Pacific) Surveyors Limited of which the market value of 45% shareholding interest in Top Speed was appraised to be RMB276 million as at 30 June 2021 (the "**FY2021 Valuation**").

Top Speed is principally engaged in the sale of liquefied natural gas ("**LNG**") in Canada (the "**LNG Business**"), and the provision of electricity, storage and related support to internet data centres (the "**IDC Electricity Business**"). During FY2022, Top Speed had underperformed in both of the LNG Business and the IDC Electricity Business, as Top Speed was undergoing certain business adjustments and refining its businesses to cope with the changing business environment.

LNG Business

LNG Business fell short of expectation as the cost of natural gas fuel and cost of purchasing and liquefying raw materials for LNG in Canada had increased drastically as a result of the prolonged Impact of COVID-19, which exacerbated the global energy crisis leading to a precipitous 100% surge in LNG fuel costs from its supplier, escalating from US$7/GJ ex-works to US$15/GJ within a short span. This exponential rise seriously dented Top Speed's cost structure, compressing its margins and hampering its competitive edge against diesel and LPG. Adding to the complexity, diesel prices remained stable during this phase, diluting the cost advantage and thus the incentive for potential clients to shift from diesel to LNG. Besides, neither Top Speed nor the Group had foreseen the extended implications of the pandemic at the time of acquisition, particularly how it would severely handicap the LNG industry. The lingering economic downturn, exacerbated by unforeseen rising fuel costs, supply chain constraints and downstream customer's unwillingness to do fuel switch had a pronounced detrimental effect on Top Speed's LNG operations.

As a result, the LNG prices increased by fuel providers, which then diminished demand for LNG and imposed significant risk and uncertainty to the LNG Business of Top Speed. Consequently, Top Speed had decided to put on hold its LNG Business in FY2022.

IDC Electricity Business

In relation to the IDC Electricity Business, Top Speed was originally expected to obtain certain license and permits in Canada, required for the operation of the IDC Electricity Business, no later than January 2022. However, in the course of its application for such license and permits, Top Speed encountered stringent compliance requirements which deterred its plan to commence the IDC Electricity Business in Canada. Firstly, Top Speed's Campbell project in Alberta encountered a significant regulatory hurdle in early 2022 when the Alberta Environment and Parks (AEP) introduced strict regulations on NOx emissions from its power generation. While projects under 10 MW were traditionally exempt from the Alberta Utilities Commission's approval process, heightened public awareness of new IDC sites in the area prompted regulatory authorities to adopt a more rigorous permitting approach. Besides, a significant setback occurred when two provinces in Canada, namely British Columbia and Manitoba, took regulatory action. They implemented an 18-month province-wide moratorium on new power load requests. Top Speed had invested significantly in business development in these regions, and this policy change severely compromised those efforts, indicating a level of regulatory unpredictability that was not factored into during the time of acquisition. Furthermore, bureaucratic in Canada caused the process delay. The process was further delayed by the bureaucratic in Canada, which resulted from (i) resource constraints of many regulatory bodies to cope with the sudden influx of demands; (ii) increased scrutiny due to the heightened awareness and importance of environmental and infrastructural impact; (iii) the ambiguity in some regulations and the subjectivity in inspections leading to inconsistencies and delays; and (iv) extended public hearing processes to ensure all stakeholders had a say, especially in matters related to environmental protection and construction. These factors subsequently impacted the timing of the cashflows to be generated from the IDC Electricity Business.

In light of the above, Top Speed decided to relocate its IDC Electricity Business to the United States, attracted by a more supportive regulatory climate. However, this strategic move led to an delay in the commencement of the project's commercial operations. This, in turn, postponed revenue generation and resulted in a decline in the projected income for FY2022. At the time of acquisition in 2021, Top Speed catered exclusively to customers within the cryptocurrency sector, primarily due to the overwhelming market demand observed during the acquisition phase. Recognizing the need for resilience and growth and considering the unexpected factors it encountered in 2022 as stated above, Top Speed then actively formulated strategies to keep pace with shifting market trends and expand its customer base by providing supports to customers in artificial intelligence area.

As a result, Top Speed recorded a net loss of approximately CA$14.8 million for FY2022 which had not been expected when the Company commenced the acquisition of Top Speed in 2021. During FY2022, the Group carried out an impairment assessment in relation to Top Speed as at 31 December 2022 (the "**FY2022 Valuation**") and recorded an impairment loss of investment in Top Speed of RMB245.8 million.

There was not any subsequent change to the method adopted in the FY2022 Valuation while compared with the FY2021 Valuation. In the FY2022 Valuation, discounted cash flow method under the income approach was applied in arriving at the value in use of Top Speed as at 31 December 2022. The valuer observed and referred to International Accounting Standard 36 — Impairment of Assets ("**IAS 36**"), where estimating the value in use of an asset or cash generating unit involves: (i) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (ii) applying the appropriate discount rate to those future cash flows. The following were the reasons for selecting the income approach:

(a) According to the requirements from IAS 36, the estimation of value in use conforms with the discounted cash flow method under the income approach, which focuses on the economic benefits generated by the future income producing capability of Top Speed;

(b) The market approach was not appropriate as there were insufficient relevant comparable transactions to form a reliable basis for valuing Top Speed; and

(c) The cost/asset approach was not applied as estimating the cost of reproducing and replacing its assets ignores the future economic benefits of Top Speed.

Therefore, the cost/asset approach and the market approach were not applicable in the FY2022 Valuation.

The FY2022 Valuation was primarily based on the historical financial information available and 6-year financial projections up to FY2028 shown below in US$ millions:

	FY2023	**FY2024**	**FY2025**	**FY2026**	**FY2027**	**FY2028**
Revenue	18.25	36.62	104.76	130.07	161.44	195.28
Cost of sales	(15.57)	(29.31)	(64.68)	(74.63)	(92.31)	(111.86)
Gross profit	**2.68**	**7.31**	**40.08**	**55.44**	**69.13**	**83.42**
Operating costs	(3.78)	(4.64)	(11.34)	(12.90)	(16.24)	(17.45)
Depreciation	(1.62)	(5.17)	(10.52)	(11.09)	(11.86)	(12.57)
Interest expenses	(0.26)	(3.56)	(4.63)	(5.77)	(7.78)	(10.64)
Income tax	(0.01)	(0.13)	(3.67)	(6.93)	(8.98)	(11.54)
Net (loss)/profit*	**(2.99)**	**(6.19)**	**9.92**	**18.74**	**24.28**	**31.21**

* Numbers may not add up due to rounding.

In relation to the above financial projections,

(a) Revenue was broken down into the IDC Electricity Business and the LNG Business. For the IDC Electricity Business, the projected revenue generated from supply of electricity during the period from FY2023 to FY2028 (the "**Forecast Period**") took into account, among others, the expected electricity sale price, expected production capacity and expected demand.

The electricity sale price was expected to be at US$0.08 per kilowatt-hour ("**kWh**") in FY2023 with reference to relevant signed contracts and memorandum of understanding with customers. From then on, the expected sale price was anticipated to decline steadily during the Forecast Period to US$0.07 per kWh in FY2028 as Top Speed anticipated a heighten competition in the long run. Initially, the internet data center market faced supply shortages and a seller's market was created. However, as the market evolves, supply and demand would reach equilibrium as more players are enticed to enter the market. In order to compete against its rivals, it is sensible to expect that Top Speed would need to lower its electricity sale price.

The projected electricity production capacity of the IDC Electricity Business was based on the developing production plants in Canada. The supply was expected to meet the expected demand of the IDC Electrify Business during the Forecast Period.

(b) For the LNG Business, it was projected that its operation would resume in FY2025. Top Speed's management anticipated that significant time and investment would be necessary to develop the LNG Business in the future. Presently, there is yet to be significant demand for LNG that justifies the endeavor. Despite the challenges, Top Speed is confident that the continuous advancement of environmental protection policies and the growing promotion of LNG technology and applications will create favorable market conditions for commencing the LNG Business in FY2025. To support this vision, preparation work has been done, including acquiring relevant permits and locating a landsite for an independent LNG liquefaction plant, as at the FY2022 Valuation.

The projected revenue was determined primarily based on factors, including but not limited to, the expected selling price of LNG per ton and the projected utility volume Top Speed can provide to its customers.

A fixed selling price of LNG of US$680 per ton was applied when projecting the revenue of the LNG Business. The production capacity was projected based on (i) the expected full LNG production capacity of 90,000 tons per year, and (ii) a growing utilization rate of its LNG facilities from 55% in FY2025 to 80% in FY2028. It was anticipated that the optimal capacity will be attained gradually as Top Speed would evolve into a mature stage, enabling the commencement of production developing production plants. The assumptions applied when projecting the capacity took into account various sources of information, including purchase records of relevant equipment, construction inspections of production sites, and the acquisition of relevant permits.

(c) Cost of sales and operating costs included material costs, production costs, labor costs, depreciation for plant and equipment, and ordinary selling, general and administrative expenses; the LNG Business would incur additional logistic and delivery costs. Most costs were based on market data and adjusted for inflation each year; while depreciation was projected with the straight-line method by using a 5-year useful life for fixed assets.

(d) Interest expenses arose from the projected borrowings to partially fund the operation of Top Speed, mostly for the use of investing in plant and equipment. Top Speed would be subject to an effective tax rate of 27% and the harmonized sales tax paid to produce goods and services which tax credit was granted.

In relation to the discount rate used in the FY2022 valuation,

(a) A discount rate of 29.40% was adopted. The discount rate was estimated based on Top Speed's weighted average cost of capital ("**WACC**"). The WACC was calculated by multiplying the after-tax cost of debt and the cost of equity by its relevant capital structure weight, then summing the products to arrive at the estimation.

(b) The cost of equity was developed through the application of the expanded capital asset pricing model ("**CAPM**") with reference to the required rates of return demanded by investors for similar projects. CAPM is the sum of the risk-free rate return, the equity risk premium required by investors to compensate for the systematic risk, size premium. Market data sourced from Bloomberg and Kroll were used as inputs for the calculation. Additional company-specific risk premium was included in the cost of equity. It accounts for additional risk premiums for start-up stage, the lack of marketability and the lack of control in relation to Top Speed.

(c) The after-tax cost of debt is reference to the corporate tax rate and expected borrowing rate of Top Speed.

In relation to the computation process in the discounted cashflow method used to estimate the value-in-use,

(a) Under the discounted cash flow method, the FY2022 Valuation was conducted using a two-stage free cash flow to the firm ("**FCFF**") model. FCFF represents the cash available to both debt and equity holders, which was formed mainly based on the above financial projection.

(b) A constant terminal growth rate of 2% was taken to estimate the terminal value beyond the Forecast Period, with reference to the local inflation rate forecast as sourced from Bloomberg.

(c) The net surplus liabilities were determined by the book values of surplus assets and liabilities sourced from the unaudited financial statements of Top Speed as at 31 December 2022. The surplus assets of US$10,039,823 included cash and cash equivalent, short-term investments, and assets held for sale; while total surplus liabilities of US$16,735,803 included advances, loans, long-term debts, and customers' deposits. The net amount of negative US$6,695,980 was applied as surplus liabilities.

(d) The FCFFs and terminal value were discounted at the aforementioned discount rate to arrive at the net present value of Top Speed. Finally, the net surplus liabilities were deducted from the net present value to obtain the value in use of Top Speed.

Other general assumptions adopted in the FY2022 Valuation are listed below:

- To continue as a going concern, Top Speed has, or will have, the resources (financial, human and physical) needed to successfully carry out current and future business operations.

- The information made available by Top Speed is truthful, accurate and without any hidden or unexpected conditions associated with Top Speed that might adversely affect the reported values.

- Interest rates and exchange rates in the localities for the operations of Top Speed will not differ materially from those presently prevailing.

- The contractual parties of the relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable.

- All relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organization required to operate in the localities where Top Speed operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated.

- There will be no major changes in the political, legal, technological, economic or financial conditions and taxation laws in the localities in which Top Speed operates or intends to operate, which would adversely affect the business of Top Speed.

The significant changes between the FY2022 Valuation and the FY2021 Valuation were primarily due to the change in financial projections of Top Speed, which had materially impacted the result and led to the impairment loss of Top Speed. Such changes were made as the performance of Top Speed was worse than expected by the Company. Both of the FY2021 Valuation and the FY2022 Valuation were estimated based on 6-year financial projections, with a constant terminal growth rate to estimate the cash flows beyond the 6-year projection period. In the FY2021 Valuation, Top Speed was expected to be profit-making during the entire projection period, with net profit margin anticipated to be at 16% in FY2022, which would then increase steadily to approximately 29% in FY2027. As to the FY2022 Valuation, given the fact that Top Speed made a loss in FY2022 with the changing business environment, it was anticipated that Top Speed would be loss-making until FY2025, at which point Top Speed would achieve a net profit margin of 9%. The net profit margin was expected to grow to 16% by the end of the projection period in FY2028. After the 6-year projection period, both the FY2021 Valuation and the FY2022 Valuation applied about 2% as the terminal growth rate.

SHARE AWARD SCHEME

As at 1 January 2022 and 31 December 2022, the total number of awards available for grant under the Share Award Scheme are 63,484,800 and 63,484,800 respectively.

As at the date of the 2022 Annual Report (being 27 April 2023), the total number of Shares available for issue under the Share Award Scheme is 63,484,800 Shares, representing approximately 6.48% of the total issued Shares as at the date thereof.

The Awarded Shares shall be granted to and accepted by the Selected Participant at nil consideration. There is no service provider sublimit under the Share Award Scheme.

The 16,774,000 Awarded Shares granted to Wang Dongxing, Wang Changhai and Liu Wenzheng under the Share Award Scheme on 4 October 2017 have been fully vested immediately on 4 October 2017 upon fulfillment of all conditions disclosed in the Company's circular dated 1 September 2017.

The above additional information does not affect other information contained in the 2022 Annual Report and save as disclosed above, all other information contained in the 2022 Annual Report remains unchanged.

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

Weifang, Shandong Province, China, 20 September 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. Zhang Tao, Mr. Wang Zefeng and Ms. Jiao Jie*

* *For identification purposes only*