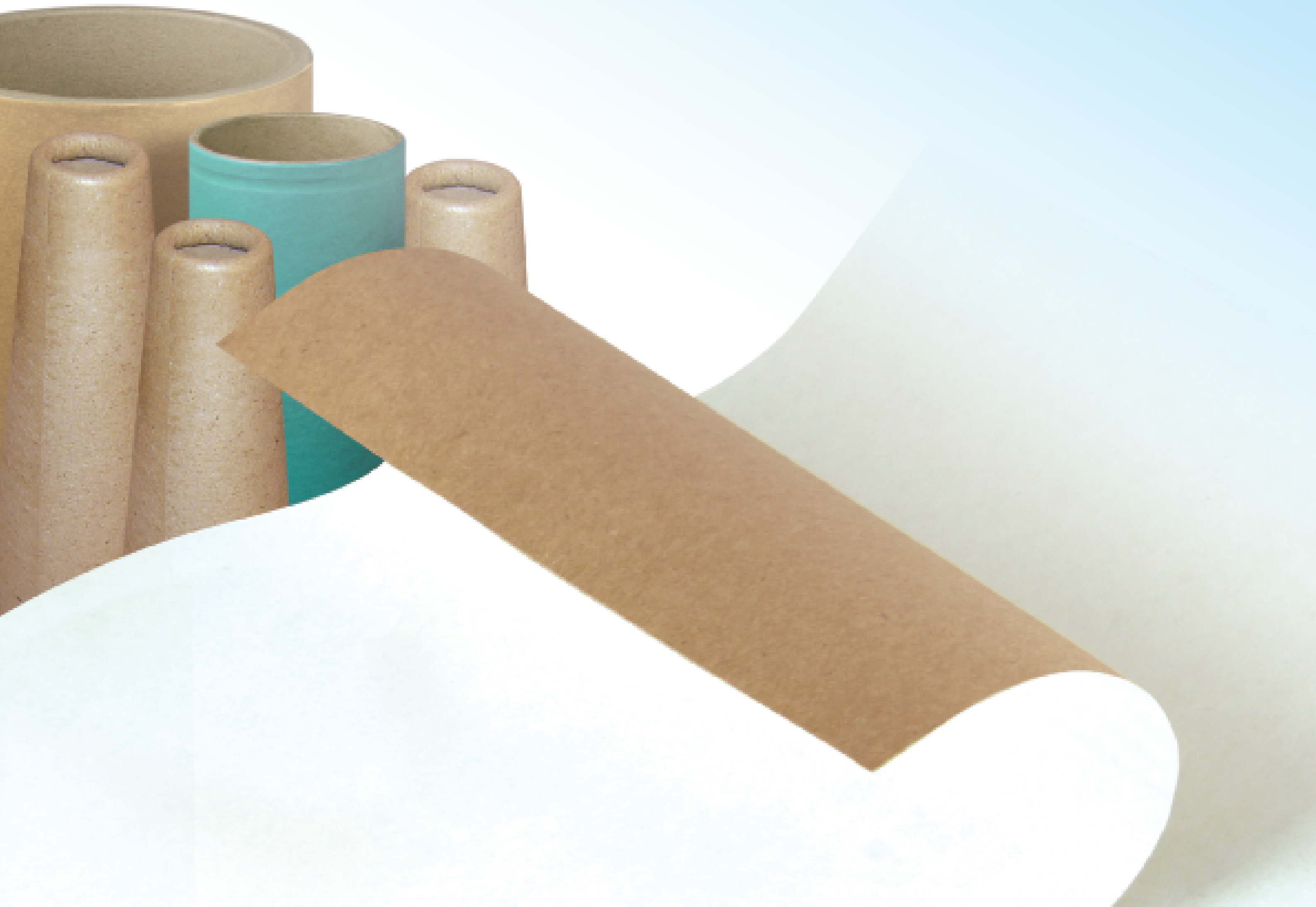
China Sunshine Paper Holdings Company Limited

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2002



Annual Report 2007

* *For identification purposes only*

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Corporate Information

Registered office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in China

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal place of business in Hong Kong

39th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Company's website address

www.sunshinepaper.com.cn

Joint company secretaries

Ms. Jiao Jie
Mr. Cheung Kai Fung *CPA, FCCA*

Qualified accountant

Mr. Cheung Kai Fung *CPA, FCCA*

Authorized representatives

Mr. Wang Dongxing
3rd District
Mei Lin Garden, Shouguang
Shandong
China

Ms. Jiao Jie
No.1, Lane 1, San Li He
Xicheng District
Beijing
China

Compliance adviser

BNP Paribas Capital (Asia Pacific) Limited
59th–63rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Audit committee

Ms. Wong Wing Yee, Jessie *(Chairman)*
Mr. Wang Zefeng
Mr. Xu Ye

Remuneration committee

Mr. Wang Zefeng *(Chairman)*
Mr. Wang Dongxing
Ms. Wong Wing Yee, Jessie

Corporate Information

Principal share registrar and transfer office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal advisers as to Hong Kong law

Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP
39th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Legal advisers as to Cayman Islands law

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal bankers

Industrial and Commercial Bank of China
Changle County Sub-branch
No. 50, Limin Street, Changle County
Weifang, Shandong Province
China

Bank of China
Changle County Sub-branch
No. 391, Heng An Street, Changle County
Weifang, Shandong Province
China

Agricultural Bank of China
Changle County Sub-branch
No. 70, Limin Street, Changle County
Weifang, Shandong Province
China

Standard Chartered Bank (Hong Kong) Limited
13/F, Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

Chairman's Statement

Profit attributable to equity holders of the Company

+166.3%

On behalf of the board of directors, it is my pleasure to report to all of the Company's shareholders that the Group has achieved encouraging annual results in 2007.

Chairman

Wang Dongxing

Chairman's Statement

Dear Shareholders,

It is my pleasure to present to you the first annual report of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the financial year ended 31 December 2007 ("FY 2007"). The year 2007 witnessed a significant change when the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 12 December 2007 (the "Listing Date"). The Listing Date was also just ten days before the seventh anniversary for the establishment of the Group. During the past seven years, we focused on manufacturing three main products: white top linerboard, light-coated linerboard and core board and has grown to become one of the largest players in the market.

2007 Review

June	•	Issued convertible bonds with a principal amount of USD22 million to Deutsche Bank AG as the Group's financial investor
	•	Acquired 60% equity interests in Changle Shengshi Thermoelectricity Co., Ltd. ("Shengshi Thermoelectricity")
July	•	Obtained approval from Weifang Municipal Development and Reform Committee Office for the establishment of our sixth production line with annual production capacity of 200,000 tons of core board
	•	Entered into strategic cooperation agreement with famous brands customers such as Mengniu Diary, Tsingtao Beer and Huiyuan Juice
August	•	Invited to participate in the drafting of the national production standard for light-coated linerboard
September	•	Accredited with OHSAS18001:1999 certification, GB/T 24001-2004 idt ISO14001:2004 certification and GB/T 2000 idt ISO9001:200 certification
December	•	Listed on the Main Board of the Stock Exchange

Financial Overview

During the year under review, the Group's sales of its main products reached 364,397 tons, comprising of 292,043 tons of white top linerboard, 11,752 tons of light-coated linerboard and 60,602 tons of core board. We recorded a total turnover and net profit of approximately RMB1,381.6 million and RMB137.3 million, respectively, for FY 2007. This represents an increase of 125.3% and 173.7% over the financial year ended 31 December 2006 ("FY 2006"), respectively. The profit attributable to equity holders of the Company and our earnings per share for FY 2007 were RMB133.0 million and RMB0.69, respectively, representing an increase of 166.3% and 137.9% from FY 2006.

The gross profit margin of the Group recorded a slight increase from 19.3% in 2006 to 19.5% in 2007. If sorted by products, the gross profit margin of white top linerboard was 20.2% while that of light-coated linerboard was 22.4% and 26.5% for core board.

Chairman's Statement

Closely Connected with Consumer Industry

Based on a research jointly conducted by our 19 domestic sales offices and foreign trade department in 2007, almost 100% of the white top linerboard and light-coated linerboard were used in the packaging of consumer products. The end users of our products are distributed across the beverage, dairy products, food industries, etc. Thanks to our close connection with the producers of consumer goods, the booming consumer industry in the PRC provided a solid foundation for the expansion of the Group. The strong domestic demand in China will also nurture the continuous growth of our Company. We place great importance on maintaining our relationship with our customers, including packaging companies, printing companies and end users and in return, we are able to maintain long-term and stable relationship with our customers.

Upstream Consolidation

Domestic recovered paper accounts for 28.8% of the total cost of sales for FY 2007. In response to the gradually increasing competition from the sourcing of raw materials, we plan to establish up to ten recovered paper collection points within mainland China in 2008 to secure the supply of raw materials and also as a means to reduce cost. Six of these collection points are already in operation, while the preparation work for the remaining four are still in progress. The total capital expenditure with regard to such collection points is expected to reach RMB60 million. It is expected that these collection points could satisfy up to 50% of the demand for domestic recovered paper of the Group.

Balance between Domestic and Export Sales

As export could be strategically complementary to our domestic business, in 2007, we endeavoured to enlarge our foreign clients base and resulted in our export sales increased from 0.5% in FY 2006 to 14.1% of the total sales in FY 2007. Most of the foreign orders come from middle east countries and South Korea. In view of the latest development of the domestic market and PRC government policies on export sales, we expect export sales will not be more than 10% of the total sales in 2008.

2008 Outlook

With our sixth production line expected to commence production by the third quarter of 2008, we expect our annual production capacity would be able to reach 560,000 tons in 2008. The foundation work for our seventh production line, a new production line which can manufacture both white top linerboard and light-coated linerboard interchangeably, and with an estimated annual production capacity of 500,000 tons, has commenced. We are very confident that the Group will continue to grow and become a dominant producer of the core products we are focusing on.

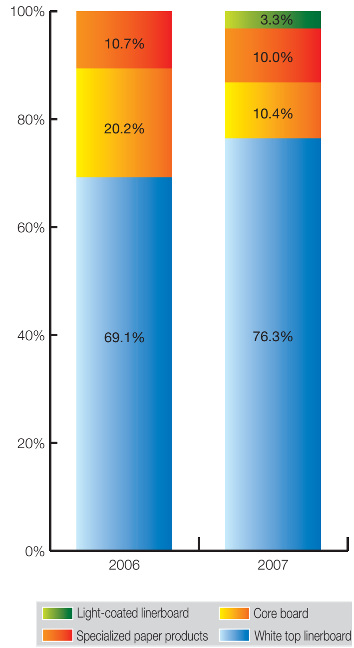
Wang Dongxing
Chairman

Shenzhen, PRC, 26 March 2008

Management Discussion and Analysis

Management Discussion and Analysis

Sales



The Group's sales represent gross revenue generated from the sales of white top linerboard, core board, light-coated linerboard and specialized paper products, such as packaging boxes and copper plate paper, net of sales-related taxes and discounts. The Group's sales are affected by the total volume of products sold and the product mix because of the different selling prices of its different products. The Group's sales recorded an increase of 125.3% to RMB1,381.6 million for FY 2007, as compared to RMB613.4 million for FY 2006. Such increase was mainly driven by (i) an increase in demand of white top linerboard and core board, which benefited from the fast growing consumer and industrial markets, (ii) an increase in the Group's production capacity by the construction of new production lines and upgrading on our existing production lines, and (iii) an increase in the average selling prices of the Group's products as a result of its ability to pass on increased raw material costs to its customers and, more recently, due to its increased production of higher grade products which have higher prices.

While focusing on domestic sales in the past, the Group has begun to widen its customer base to outside China since early 2007. For FY 2007 and FY 2006, domestic sales accounted for 85.9% and 99.5% of the Group's total sales, respectively, and export sales accounted for 14.1% and 0.5% of the Group's total sales, respectively.

The following tables set out the Group's breakdown of sales and the percentage of sales by product categories and regions:

(a) Sales by product categories

	Year ended 31 December					
	2007			2006		
	RMB'000	**%**	**Gross profit margin (%)**	RMB'000	%	Gross profit margin (%)
White top linerboard	**1,054,899**	**76.3**	**20.2**	424,004	69.1	21.1
Light-coated linerboard	**45,270**	**3.3**	**22.4**	—	—	—
Core board	**143,124**	**10.4**	**26.5**	123,804	20.2	19.6
Specialized paper products	**138,326**	**10.0**	**5.9**	65,559	10.7	7.9
Total	**1,381,619**	**100.0**	**19.5**	613,367	100.0	19.3

Management Discussion and Analysis

(b) Sales by regions

	Year ended 31 December			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Domestic	**1,187,046**	**85.9**	610,024	99.5
Export	**194,573**	**14.1**	3,343	0.5
Total	**1,381,619**	**100.0**	613,367	100.0

The following table sets out the sales, sales volume and average selling prices of white top linerboard, light-coated linerboard and core board:

	Year ended 31 December	
	2007	2006
Total sales	**RMB'000**	RMB'000
White top linerboard	**1,054,899**	424,004
Light-coated linerboard	**45,270**	—
Core board	**143,124**	123,804
Sales volume	**Tons**	Tons
White top linerboard	**292,043**	117,982
Light-coated linerboard	**11,752**	—
Core board	**60,602**	55,247
Average selling price per ton	**RMB**	RMB
White top linerboard	**3,612**	3,594
Light-coated linerboard	**3,852**	—
Core board	**2,362**	2,241

No average selling price of specialized paper products is presented since specialized paper products comprise a wide range of products which are measured and sold based on different standards and measurements.

Management Discussion and Analysis

Cost of sales

The Group's cost of sales includes raw materials, overhead costs relating to production and manufacturing and labour costs. The increase in cost of sales in FY 2007 as compared to FY 2006 was in line with the increases in sales, production capacity, purchases of raw materials and depreciation and utilities.

The following table sets out the Group's breakdown of the cost of sales:

	Year ended 31 December			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Domestic recovered paper	**320,461**	**28.8**	134,948	27.3
Overseas recovered paper	**197,289**	**17.7**	79,516	16.1
Kraft pulp	**164,601**	**14.8**	100,986	20.4
Chemicals and others	**203,253**	**18.3**	81,507	16.4
Raw materials cost subtotal	**885,604**	**79.6**	396,957	80.2
Labour costs	**26,484**	**2.4**	10,396	2.1
Overhead costs	**199,930**	**18.0**	87,347	17.7
Total	**1,112,018**	**100.0**	494,700	100.0

Raw materials

Domestic recovered paper, overseas recovered paper and kraft pulp sourced from North and South America, Russia and Canada are the principal raw materials used in the manufacture of the Group's products, which represented the most significant portion of the cost of sales during the year under review. Raw material costs were RMB885.6 million and RMB397.0 million, respectively, and accounted for 79.6% and 80.2% of the Group's cost of sales for FY 2007 and FY 2006, respectively.

Overhead costs

Overhead costs relating to production and manufacturing include depreciation charges, utility expenses, other factory overheads and related expenses. Overhead costs were RMB199.9 million and RMB87.3 million, respectively, and accounted for 18.0% and 17.7% of the Group's cost of sales, respectively, for FY 2007 and FY 2006. The Group further enjoyed the synergy from vertical integration of an electricity and steam plant in FY 2007 after Shengshi Thermoelectricity became an indirect

Management Discussion and Analysis

subsidiary of the Company following the acquisition of 60% equity interests in Shengshi Thermoelectricity in June 2007. Accordingly, the electricity and steam charges, as a percentage of cost of sales, decreased from 13.4% in FY 2006 to 12.1% in FY 2007. Such decrease was off-set by an increase in depreciation charges, as a percentage of cost of sales, from 2.0% in FY 2006 to 3.8% in FY 2007. The increase in depreciation charges was led by the commencement of production of the fifth production line in November 2006.

Gross profit and gross profit margin

As a result of the foregoing, the gross profit increased by RMB150.9 million to RMB269.6 million in FY 2007 from RMB118.7 million in FY 2006. The gross profit margin was 19.5% and 19.3% for FY 2007 and FY 2006, respectively.

Other income

Other income mainly comprises net exchange gain, negative goodwill income, interest income, government subsidies and sales of electricity and steam. The increase in other income of RMB23.9 million was mainly due to the net effect of an increase in sales of electricity and steam of RMB28.8 million and a decrease in net exchange gain of RMB4.5 million. The principal business of Shengshi Thermoelectricity is the generation and sales of electricity and steam. Prior to the acquisition of 60% equity interests in Shengshi Thermoelectricity by the Group on 29 June 2007, the Group only held 20% equity interests in Shengshi Thermoelectricity. Upon completion of the said acquisition, Shengshi Thermoelectricity became a 80% non-wholly owned subsidiary of the Group and its sales of electricity and steam of RMB28.8 million was reflected in the Group's consolidated financial statements as other income.

Selling and distribution expenses

Selling and distribution expenses mainly comprise transportation costs (rail, road and marine), travel and related expenses of the Group's sales and marketing staff, staff salary costs and related expenses, advertising, rentals and utilities of sales offices, and depreciation. As a percentage of sales, the Group's distribution costs were 4.8% and 6.8% for FY 2007 and FY 2006, respectively.

Administrative expenses

Administrative expenses mainly consist of administrative staff salaries and their related expenses, administrative fixed assets depreciation, travel expenses, professional charges, office utilities and consumables, charges for decreased value of inventories and provision for bad debts. As a percentage of sales, administrative expenses were 3.0% and 3.6% for FY 2007 and FY 2006, respectively.

Other expenses

Other expenses represent cost of sales of electricity and steam of Shengshi Thermoelectricity in the second half of 2007. Upon completion of the acquisition of Shengshi Thermoelectricity as mentioned in the above paragraph headed "Other income", its cost of sales of electricity and steam of RMB21.2 million was reflected in the Group's consolidated financial statements as other expenses.

Finance costs

Finance costs primarily consist of interest on bank borrowings and bills discount charges less interest capitalized. The increase in finance costs reflected the Group's increased bank borrowings to fund the expansion of its production capacity and its daily operations.

Management Discussion and Analysis

Income tax expenses

The income tax expenses in FY 2007 was RMB8.3 million, representing approximately a 39.8% increase from RMB5.9 million in FY 2006. However, the effective tax rate decreased from 10.6% in FY 2006 to 5.7% in FY 2007. The sharp reduction in the effective tax rate in FY 2007 resulted primarily from an exemption from income tax which became applicable to Changle Century Sunshine Paper Industry Co., Ltd. ("Changle Sunshine"), a member of the Group, in the second half of FY 2006. Accordingly, the tax exemption was only recognized in the second half of FY 2006 while the results of FY 2007 fully reflected the effects of such tax exemption.

Profit for the year and net profit attributable to the equity holders of the Company

As a result of the factors discussed above, the profit for FY 2007 and the net profit attributable to the equity holders of the Company for FY 2007 increased by RMB87.1 million and RMB83.1 million to RMB137.3 million and RMB133.0 million, respectively, from RMB50.2 million and RMB49.9 million for FY 2006.

Inventories and turnover days

The Group's inventories increased by 68.7% to RMB177.2 million as at 31 December 2007, from RMB105.1 million as at 31 December 2006, mainly because of an increase in raw materials stored. The Group's fifth production line, with an annual production capacity of 180,000 tons, commenced its operation in November 2006. As a result, the Group had to store more raw materials to support its expanding business in 2007. Notwithstanding the increase in value of inventories, the Group's inventory turnover days decreased from 77.8 days in FY 2006 to 58.2 days in FY 2007. Such improvement was the result of the Group's effort in production planning to maintain a lower inventory level.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Raw materials	**152,086**	72,375
Finished goods	**25,162**	32,711
Total	**177,248**	105,086

Trade receivables and turnover days

	As at 31 December	
	2007	2006
Trade receivables (in RMB'000)	**109,768**	64,262
Turnover days (in days)	**29.0**	38.2

Management Discussion and Analysis

The Group's trade receivables increased by 70.8% to RMB109.8 million as at 31 December 2007, from RMB64.3 million as at 31 December 2006. The trade receivables turnover days was 29.0 days in FY 2007 as compared to 38.2 days in FY 2006.

Bills receivable

The Group's bills receivable increased by 126.3% to RMB382.4 million as at 31 December 2007, from RMB169.0 million as at 31 December 2006. The Group's bills receivable include bills endorsed to third parties as well as bills discounted to banks. In accordance with the International Financial Reporting Standards ("IFRS"), discounted bills and endorsed bills are considered unsettled prior to their maturity dates, even though the Group has already received cash payment for them. In this respect, the Group's balance sheet reflects all bills receivable despite the Group having endorsed or discounted the bills for immediate cash payment already. Included in the balance of the bills receivable, there were approximately RMB332.2 million as at 31 December 2007 and RMB145.5 million as at 31 December 2006, respectively, of bills discounted to banks and endorsed to third parties in total.

Trade payables and turnover days

	As at 31 December	
	2007	2006
Trade payables (in RMB'000)	**387,997**	137,780
Turnover days (in days)	**127.4**	101.7

The Group's trade payables increased by 181.6% to RMB388.0 million as at 31 December 2007, from RMB137.8 million as at 31 December 2006. The trade payable turnover days was 127.4 days in FY 2007 as compared to 101.7 days in FY 2006.

Liquidity and Capital Resources

Net current assets/liabilities

The Group has net current assets of RMB295.6 million as at 31 December 2007 as compared to its net current liabilities of RMB324.9 million as at 31 December 2006. The Group's current liabilities exceeded current assets of RMB324.9 million as at 31 December 2006 because the Group relied primarily on shareholder's loan and bank borrowings to finance capital expenditures in purchasing and upgrading production facilities and equipment. Amount due to the Company's shareholder, which amounted to RMB269.0 million, was capitalized as the Company's capital in FY 2007. As a result of the above capitalization and together with the IPO net proceeds (before the partial exercise of the over-allotment option) of HK$551.9 million (equivalent to approximately RMB521.2 million), the Group turned from a net current liability position as at 31 December 2006 into a net current asset position as at 31 December 2007.

Current ratio

The current ratio, being current assets over current liabilities, was 1.27 as at 31 December 2007 (31 December 2006: 0.57).

Borrowings

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers. As at 31 December 2007, the Group had total borrowings of RMB658.6 million (31 December 2006: RMB323.3 million). These bank loans were secured by corporate guarantees and assets of the Group. As at 31 December 2007, the Group had credit facilities totaling RMB1,154.8 million, of which RMB496.2 million were unutilized.

Net borrowings to equity ratio

The Group's net borrowings to equity ratio, being net borrowings (total borrowings net of bank balances and cash) over total equity, was 0.01 as at 31 December 2007 (31 December 2006: 1.73).

Capital expenditure

The Group's ability to maintain and increase its sales and profits depends upon continued capital spending. Capital expenditures are used to purchase land, property, plant and equipment. For FY 2007, the Group's expenditure for the purchase of land use rights totaled RMB22.1 million, and the Group's expenditure for the purchase of fixed assets totaled RMB257.9 million.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB89.9 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 31 December 2007.

As at 31 December 2007, the Group had no material contingent liabilities.

Use of net proceeds from the Company's initial public offering

The net proceeds from the Company's listing and issue of new shares (before the partial exercise of the over-allotment option) amounted to HK$551.9 million (equivalent to approximately RMB521.2 million). The net proceeds will be applied in accordance with the proposed applications set out in the section headed "Use of proceeds" contained in the prospectus of the Company dated 29 November 2007 (the "Prospectus"). As at 31 December 2007, the unutilized proceeds are deposited with licensed banks as short-term deposits in China and Hong Kong. On 3 January 2008, the Company received additional net proceeds of HK$43.4 million (equivalent to approximately RMB41.0 million) upon issue of the new shares pursuant to the partial exercise of the over-allotment option on 31 December 2007 which will also be applied in the same manner as set out above.

Directors, Senior Management and Staff

BOARD OF DIRECTORS

The board of directors of the Company ("Board") is responsible for and has general powers over the management and conduct of the Group's business. The Board consists of nine directors ("Directors") including four executive Directors, two non-executive Directors and three independent non-executive Directors. The Company has entered into service contracts with each of its executive Directors. The table below shows certain information in respect of members of the Board:

Name	Age	Position in the Group
Executive Directors		
Mr. Wang Dongxing	45	Chairman and general manager
Mr. Shi Weixin	51	Vice chairman
Mr. Zhang Zengguo	42	Deputy general manager
Mr. Wang Yilong	45	Executive Director
Non-executive Directors		
Mr. Xu Fang	30	
Mr. Wang Nengguang	50	
Independent non-executive Directors		
Ms. Wong Wing Yee, Jessie	42	
Mr. Wang Zefeng	47	
Mr. Xu Ye	35	

Executive Directors

Mr. Wang Dongxing, aged 45, is an executive Director, the chairman and the general manager of the Group. With over 20 years of experience in the paper manufacturing industry, Mr. Wang is responsible for the overall management and strategy of the Group. Mr. Wang has been with the Group since the establishment of Changle Sunshine in 2000. He graduated from 山東輕工業學院 (Shandong Institute of Light Industry) with a Bachelor of Engineering degree in 1983, with a major in pulp and paper making. He served as a director and deputy general manager of Shandong Chenming Paper Industry Group Co., Ltd. ("Shandong Chenming"), a company listed on the Shenzhen Stock Exchange (stock code: 000488/200488) since 2000 which was mainly engaged in the business of production of machine-made paper, paper plate, paper materials and paper-making related machineries from 1985 to 1999. He was mainly responsible for the daily operation and management in Shandong Chenming. He served as factory manager of Shandong Chenming Paper Industry Group Qihe Cardboard Co., Ltd ("Qihe Cardboard") from 1995 to 1996. During his tenure in office in Qihe Cardboard, Mr. Wang obtained the Qihe County's Economic Special Achievement Golden award. He also served as factory manager of Shandong Chenming No. 2 Factory from 1997 to 1998, and was the general manager of Wuhan Shuailun Paper Industry Co., Ltd. from 1999 to 2000.

Directors, Senior Management and Staff

Mr. Shi Weixin, aged 51, is an executive Director and the vice Chairman of the Group. With over 20 years of experience in electrical automation control, Mr. Shi is responsible for the management of the automation system. Mr. Shi has been with the Group since the establishment of Changle Sunshine in 2000. He graduated from China Textile University in 1986, with a major in industrial electrical automation. Mr. Shi used to be a director of Shanghai Paper Manufacturing Machinery General Factory from 1981 to 1992 and was responsible for the design of the automation control system for paper-making equipments. During 1984 to 1992, he has been named as an "Excellent Technician" twice. In 1993, Mr. Shi founded Shanghai Paper Mechanical Electric Control Technology Institute (the "Shanghai Institute"), and has been its chairman and general manager since 1993. Mr. Shi was primarily responsible for management and operation in Shanghai Institute. He was also a member of the Shanghai Hongkou District Committee of Political Consultative Conference, a member of the executive committee of Shanghai Hongkou Federation of Industry and Commerce and a director of Hongkou Association of Entrepreneurs Association. Mr. Shi won the "Shanghai City Technological Achievement" award in 2000.

Mr. Zhang Zengguo, aged 42, is an executive Director and the deputy general manager of the Group and is responsible for production management. Mr. Zhang joined the Group in 2001. He is also the director of the technical department, assistant general manager and deputy general manager of Changle Sunshine since 2001. He graduated from the Shandong Institute of Light Industry in 1988, with a major in pulp and paper manufacturing. Mr. Zhang was the department director and engineer of Jinguang Paper Mill from 1993 to 2000. During his tenure in office in Jinguang Paper Mill, Mr. Zhang was primarily responsible for the design, construction and test run of projects.

Mr. Wang Yilong, aged 45, is an executive Director of the Group and is responsible for facilities management. Mr. Wang has been with the Group since the establishment of Changle Sunshine in 2000. He graduated from Tongji University in 1985, with a major in electronic automation. He is also the deputy general manager of the Shanghai Institute since 1993, with the responsibility of marketing, sales and production. He was the technical director of the Shanghai Rectifier General Factory from 1985 to 1992, and was responsible for the design of products and sales.

Non-executive Directors

Mr. Xu Fang, aged 30, is a non-executive Director. Mr. Xu joined the Group in 2006. Mr. Xu graduated from Jiangxi University of Finance and Economics, with a major in international finance in 1998. He is currently an executive director of China Everbright Investments Management Limited. Mr. Xu worked in Shenzhen UnionNet Company between 1998 and 2001 and in Taiwan Securities Co (Hong Kong), Ltd. between 2001 and 2003.

Mr. Wang Nengguang, aged 50, is a non-executive Director. Mr. Wang joined the Group in 2006. Mr. Wang graduated from the Chinese Communist Central Academy with a Master's degree in economic management in 2001. He is the managing director and chief financial officer of Legend Capital Management Limited, which specializes in venture capital investments. Between 1994 and 2000, he was the general manager of the finance department of the Lenovo Group Limited. Mr. Wang has been acting as a non-executive director of Sinocom Software Group Limited (stock code: 299), a company listed in the Stock Exchange, since February 2003.

Directors, Senior Management and Staff

Independent non-executive Directors

Ms. Wong Wing Yee, **Jessie**, aged 42, is an independent non-executive Director. Ms. Wong joined the Group in 2007. Ms. Wong graduated from the University of Southern California with a bachelor's degree in accountancy in 1988 and from the University of Wolverhampton with an LLB degree in 1999. She is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She was the head of compliance of Guotai Junan Financial Holdings Limited from 2004 to 2007. Ms. Wong has also worked at Grand Cathay Securities (Hong Kong) Limited as their head of compliance from 2000 to 2004, at the Securities and Futures Commission as an assistant manager and a manager from 1993 to 2000, and at Ernst & Young in Hong Kong as an auditor. Currently, Ms. Wong does not hold any directorships and positions at other listed companies.

Mr. Wang Zefeng, aged 47, is an independent non-executive Director. Mr. Wang joined the Group in 2007. Mr. Wang graduated from Shandong Institute of Light Industry in 1982 with a Bachelor's degree in industrial art of pulp and paper manufacturing. He is currently the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group. He is also the vice chairman of Shandong Paper Manufacturing Industry Association, Shandong Light Industry Machinery Association and Shandong Packaging Printing Association. He has worked in Shandong Light Industry Design Institute from 1988 to 2001.

Mr. Xu Ye, aged 35, is an independent non-executive Director. Mr. Xu joined the Group in 2007. Mr. Xu founded Star Link Investments Holdings Ltd. ("Star Link Investments") in 2005 and is currently its managing partner. Star Link Investments specializes in investments, merger and acquisition advisory, and business consulting services. Previously, Mr. Xu had significant professional experiences with international investment banks including Lehman Brothers International from 2000 to 2001, Banque Paribas in 1998, and L.E.K. Consulting, a prestigious multinational consultancy focusing on corporate strategy, from 2001 to 2002. He also worked as the chief financial officer of Novanat Bio-Resources Inc. from 2003-2004. Mr. Xu received his MBA from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor of Arts and Bachelor of Science degrees from the Shanghai International Studies University and the Shanghai University of Finance and Economics in 1994, respectively.

SENIOR MANAGEMENT

Mr. Wang Changhai, aged 37, is the deputy general manager of the Group, and is responsible for domestic sales. Mr. Wang joined the Group in 2001. Mr. Wang has been a manager and an assistant manager of the Group, and was promoted to the deputy general manager of the Group in 2003.

Mr. Hu Gang, aged 52, is the deputy general manager of the Group, and is responsible for management of the Group's finance. Mr. Hu joined the Group in 2001. Mr. Hu graduated from the Zhongnan College of Politics and Law with a college diploma in industrial accounting in 1987. Prior to joining the Group, Mr. Hu was the deputy general manager and senior accountant of Hubei Xiangfan Chenming Paper Industry Co., Ltd. and Hubei Changyang Hongfa Paper Industry Co., Ltd.

Mr. Sang Ziqian, aged 53, is the deputy general manager of the Group, and is responsible for production management. He is also the general manager of Shengshi Thermoelectricity. Mr. Sang joined the Group in 2001. Prior to joining the Group, Mr. Sang worked in Shandong Chenming for 19 years as an assistant economic officer. During his tenure in

Directors, Senior Management and Staff

office in Shandong Chenming, Mr. Sang was primarily responsible for sales, after-sale service and client relationship management.

Mr. Ruan Guoting, aged 51, is the deputy general manager of the Group, and is responsible for infrastructure projects. Mr. Ruan joined the Group in 2002. Mr. Ruan graduated from the Shangdong Construction University with a postsecondary degree in industrial design in 1978, and then he graduated with a postsecondary degree in Architecture Management in 1995. Prior to joining the Group, Mr. Ruan has worked as an engineer in Shouguang Second Construction Engineering Company and Shandong Chenming.

Ms. Zhang Xiaohui, aged 46, is the deputy general manager of the Group, and is responsible for international sales. Ms. Zhang joined the Group in 2003. Ms. Zhang graduated from the Shandong Institute of Light Industry with a Bachelor of Engineering. Prior to joining the Group, between 1985 and 1999, Ms. Zhang worked in the China National Pulp and Paper Research Institute. Between 2000 and 2001, Ms. Zhang worked in the Beijing Branch of Thermo Black Clawson Inc as senior regional manager and her primary responsibilities include sales and marketing.

Mr. Ci Xiaolei, aged 32, is the deputy general manager of the Group, and is responsible for the management of the Company's new projects. Mr. Ci joined the Group in 2003. Mr. Ci graduated from Anhui University of Technology and Science with a Bachelor of Engineering in 1998. Mr. Ci has been the project manager, deputy-general engineer and general engineer of Phase I and Phase II of the production facilities of Changle Sunshine and is currently the project manager of Phase III of the production facilities of Changle Sunshine. Prior to joining the Group, Mr. Ci has worked at Shandong Chenming and was responsible for equipment management and maintenance.

Ms. Jiao Jie, aged 27, is one of the joint company secretaries of the Company and the special assistant to chairman of the Board. She is mainly responsible for assisting the chairman of the Board in discharging his duties, in particular, investor relations. Ms. Jiao joined the Group in 2007. Ms. Jiao graduated from Peking University with Bachelor degrees in law and economics in 2003, and obtained her Master's degree (Magister Juris) from Oxford University in 2004. Prior to joining the Group, Ms. Jiao worked as a senior legal consultant with leading PRC Law firms including Jingtian & Gongcheng, Attorneys at Law from 2004 to the first half of 2006 and Commerce & Finance Law Offices from the second half of 2006 until joining the Group in 2007. In her previous positions, Ms. Jiao has advised in a wide variety of transactions relating to companies with business or property interests in the PRC, including H-Share listings.

JOINT COMPANY SECRETARIES

Ms. Jiao Jie. Please refer to the paragraph headed "Senior Management" for her biography.

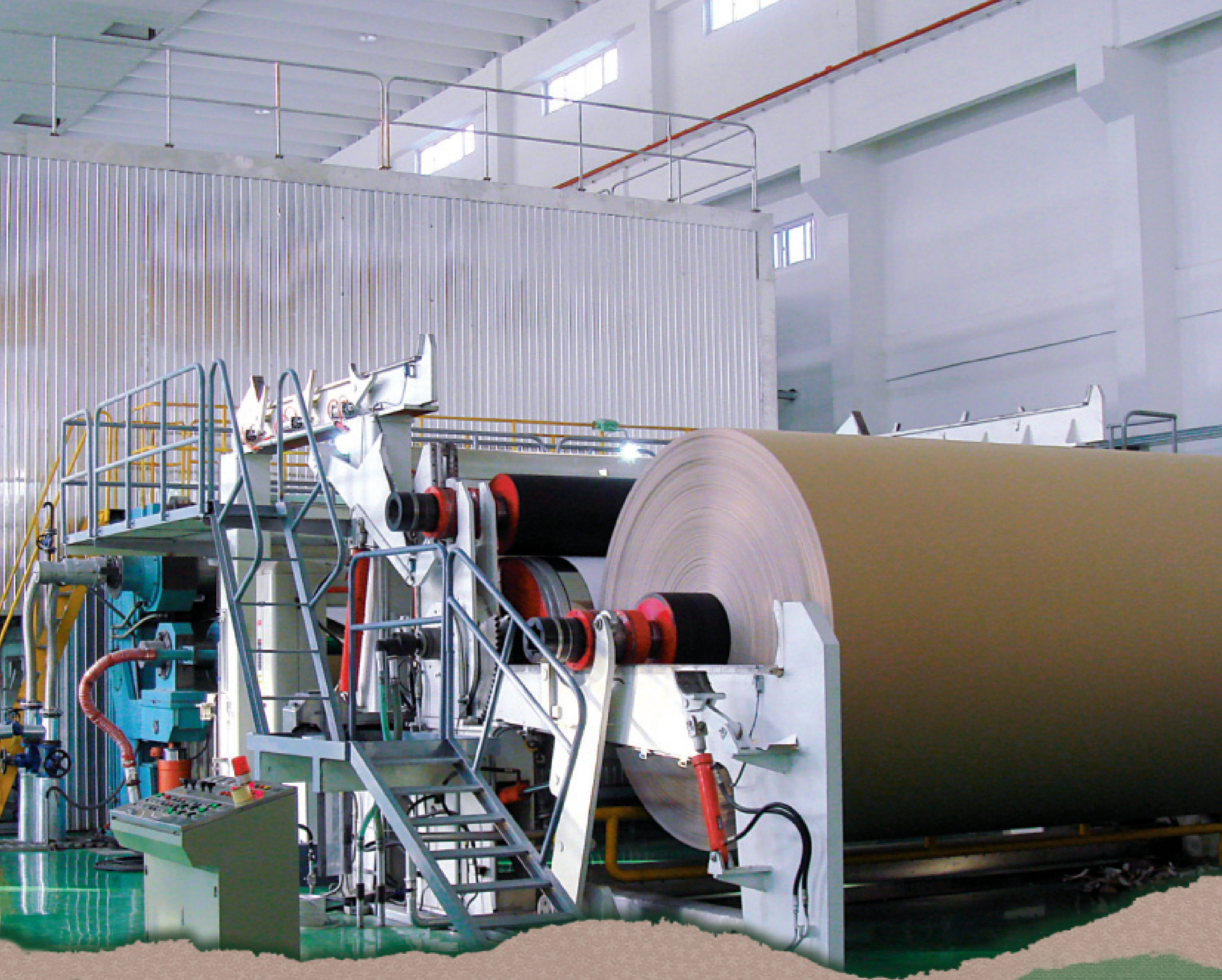
Mr. Cheung Kai Fung, aged 33, is the Company's other joint company secretary and the group financial controller. He is also the Company's qualified accountant. Mr. Cheung joined the Group in 2007. Mr. Cheung graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration degree in Information & Systems Management (Information Systems) in 1996. Immediately after graduation, Mr. Cheung joined the auditing and assurance division of KPMG until in 2000 when he took up a position in the group

Directors, Senior Management and Staff

finance division of PCCW Limited. Mr. Cheung then spent another four years working in the auditing and assurance division of two other international accounting firms. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Cheung has around 10 years of experience in auditing, accounting and finance.

QUALIFIED ACCOUNTANT

Mr. Cheung Kai Fung. Please refer to the paragraph headed "Joint Company Secretaries" for his biography.



Corporate Governance Report

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing Shareholders' interests. The Company has complied with the provision of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the Company's listing on the Stock Exchange on the Listing Date, except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman and executive director of the Company and also the general manager of Changle Sunshine, the principal operating subsidiary of the Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, the Board considers that it is in the interest of the Group and the shareholders as a whole for him to be given the overall management responsibility of the Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to the Company at this stage and believes such arrangement will not result in any material adverse impact to the efficiency of operation and management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code during the period from the Listing Date to 31 December 2007.

THE BOARD

The Board is responsible for the overall development and guidance of the Group. It formulates business strategies and policies for the Group and oversees the effectiveness of management strategies to maximize long-term shareholder value. The Group's management team takes charge of the daily operations of the Group. The Board primarily performs the following duties:

— formulate long-term business strategies
— approve annual budgets
— review operating and financial performance
— discuss and approve acquisition opportunities, investments and significant capital expenses
— approve the appointment of Directors and the joint company secretaries
— monitor the performance of the Group's management

The chairman is responsible for the well-regulated management and operation of the Board. The executive Directors (including the chairman) also take charge of the operations of the Company.

Corporate Governance Report

Biographical details of the Directors are set out in the section headed "Directors, Senior Management and Staff".

All of the Directors were appointed for a term of three years with effect from the Listing Date. In accordance with the articles of association of the Company, one third (or not less than one third) in number of the Directors shall retire from office by rotation at each annual general meeting of the Company and, being eligible, offer themselves for re-election at the annual general meeting. Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo will retire from office at the forthcoming annual general meeting of the Company, and, being eligible, will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

The Board reviews from time to time its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

BOARD MEETINGS

Before a board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the CG Code. Since the Company was only listed on 12 December 2007 (and become subject to the regulation of the CG Code since then), only one meeting was held by the Board for the period from the date of incorporation on 22 August 2007 to 31 December 2007. All Directors attended such meeting. The Directors confirm that at least four board meetings will be held during the financial year ending 31 December 2008.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and to provide advice and comments to the Board. The members of the audit committee are all the independent non-executive Directors, namely Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie is the chairman of the audit committee. No audit committee meetings were held for the year ended 31 December 2007 as the Company was only listed on 12 December 2007 and became subject to the regulation of the CG Code since then. Details of the report of the audit committee are set out in the section headed "Report of the Audit Committee".

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng and Ms. Wong Wing Yee, Jessie. Mr. Wang Zefeng is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and give recommendations to the Board in relation to the remuneration and other benefits paid by the Company to the Directors and the senior

Corporate Governance Report

management of the Company. The remuneration of all the Directors and the senior management is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. No remuneration committee meetings were held for the year ended 31 December 2007 as the Company was only listed on 12 December 2007 and became subject to the regulation of the CG Code since then.

AUDITORS' REMUNERATION

For the financial year ended 31 December 2007, the fee paid/payable to the auditors of the Company in respect of the audit services and non-audit services provided amounted to approximately RMB4.8 million and RMB Nil, respectively.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the period, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management. Besides, the audit committee of the Company and the Board also will perform regular review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the financial year ended 31 December 2007, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 39 to 40.

Report of the Audit Committee

Members

The Audit Committee of the Company consists of three independent non-executive Directors, namely, Ms. Wong Wing Yee, Jessie (Chairman), Mr. Wang Zefeng and Mr. Xu Ye. Biographical details of the members are set out in the section headed "Directors, Senior Management and Staff".

Terms and Reference

Based on the terms of reference of the Audit Committee, members of the committee shall, among other things, oversee the Group's relationship with its external auditors, review the preliminary results, interim results and annual financial statements, monitor the compliance with statutory requirements and Listing Rules, review the scope, extent and effectiveness of the Group's internal audit functions, and, where necessary, commission independent investigations by legal advisers or other professionals.

Meetings

No audit committee meetings were held for the financial year ended 31 December 2007 as the Company was only listed on 12 December 2007 and became subject to the regulation of the CG Code since then. Subsequent to 31 December 2007 and up to the date of this report, one audit committee meeting was held and attended by each of the members as follows:

Name of Member	Meetings attended/ eligible to attend
Ms. Wong Wing Yee, Jessie *(Chairman)*	1/1
Mr. Wang Zefeng	1/1
Mr. Xu Ye	1/1

The following is a summary of the tasks completed by the Audit Committee up to the date of this report:

- reviewed the consolidated financial statements for the financial year ended 31 December 2007;
- reviewed the external auditor's audit plan, 2007 letter of representation and audit engagement letter;
- considered and approved the 2007 external audit fees;
- reviewed the Company's internal control systems; and
- reviewed the "Continuing Connected Transactions" set out on pages 36 to 38 of this Annual Report.

Report of the Audit Committee

Financial Reports

The Audit Committee reviewed and considered the reports and statements of the management to ensure that the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards and Appendix 16 to the Listing Rules. The Committee also met with the external auditors of the Group, Deloitte Touche Tohmatsu, to consider the scope and results of their independent audit in respect of the consolidated financial statements.

Review of Internal Control and Risk Management Systems

The Audit Committee assisted the Board to perform its duties to maintain an effective internal control system for the Group. The Audit Committee reviewed the Group's procedure and workflow for environmental and risk assessment and its initiatives for business risks management and control.

Re-Appointment of External Auditor

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the Company's external auditor for the year ending 31 December 2008.

For the financial year ended 31 December 2007, the external auditor of the Company received/will receive approximately RMB4.8 million in total for their audit services rendered. The external auditor has not provided any non-audit services to the Company during the financial year ended 31 December 2007.

Report of the Directors

The Directors are pleased to present the first annual report together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2007.

Reorganization

The Company was incorporated on 22 August 2007 as an exempted company with limited liability in the Cayman Islands. Pursuant to a reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the Stock Exchange, the Company became the holding company of the companies now comprising the Group (the "Group Reorganization"). Further details of the Group Reorganization and the subsidiaries acquired pursuant thereto are set out in note 2 to the consolidated financial statements and in the Prospectus.

Principal activities

The Group is principally engaged in the production and sale of white top linerboard, light coated linerboard and core board.

Results and appropriations

The consolidated results of the Group for the financial year ended 31 December 2007 are set out in the consolidated financial statements on page 41.

No dividend was paid or proposed during 2007. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2007.

Reserves

Details of the change in reserves of the Group for the financial year ended 31 December 2007 are set out in the consolidated financial statements on page 44.

Donations

During the financial year ended 31 December 2007, the Group donated a total of RMB0.9 million for charitable purposes.

Property, plant and equipment

Details of the movements in the property, plant and equipment, and land use rights of the Group during the financial year ended 31 December 2007 are set out in notes 13 and 14 to the consolidated financial statements.

Report of the Directors

Share Capital

Details of the movements in the share capital of the Company during the financial year ended 31 December 2007 are set out in note 29 to the consolidated financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the law of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Financial summary

A summary of the consolidated results and of the assets and liabilities of the Group for the last four financial years is set out on page 110.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 43 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group are set out in notes 27 and 28 to the consolidated financial statements.

Purchase, sale or redemption of securities

During the financial year ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Directors

The Directors who held office during the financial year ended 31 December 2007 and up to the date of this report were:

Executive Directors

Mr. Wang Dongxing *(Chairman)*	*(appointed on 22 August 2007)*
Mr. Shi Weixin	*(appointed on 19 November 2007)*
Mr. Zhang Zengguo	*(appointed on 19 November 2007)*
Mr. Wang Yilong	*(appointed on 19 November 2007)*

Non-executive Directors

Mr. Xu Fang	*(appointed on 19 November 2007)*
Mr. Wang Nengguang	*(appointed on 19 November 2007)*

Independent non-executive Directors

Ms. Wong Wing Yee, Jessie	*(appointed on 19 November 2007)*
Mr. Wang Zefeng	*(appointed on 19 November 2007)*
Mr. Xu Ye	*(appointed on 19 November 2007)*

In accordance with the articles of association of the Company, Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Board considers that all of the independent non-executive Directors are independent.

Directors' service contracts

Each of the executive Directors has entered into a service contract dated 19 November 2007 with the Company for a term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract. The annual salary and bonus of each executive Director shall be determined by the Board and subject to the annual review by the remuneration committee of the Company.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment dated 19 November 2007 with the Company under which each of them has agreed to act as a non-executive Director or an independent non-executive Director for a period of three years, commencing from the Listing Date, unless terminated in accordance with the terms and conditions specified therein.

Details of directors' emolument for each of the Directors for the financial year ended 31 December 2007 are set out in note 10 to the consolidated financial statements.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Directors' interests in contracts

No contract of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period.

Directors' interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation of the Company

As at 31 December 2007, and after taking into account the issuance of an additional 7,500,000 Shares on 3 January 2008 pursuant to the partial exercise of the over-allotment option on 31 December 2007, the Directors had the following interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules:

(i) Long Positions in the Company:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Wang Dongxing(1)	Corporate interest	173,744,026	42.64%
Mr. Shi Weixin(1)	Corporate interest	173,744,026	42.64%
Mr. Zhang Zengguo(1)	Corporate interest	173,744,026	42.64%
Mr. Wang Yilong(1)	Corporate interest	173,744,026	42.64%
Mr. Wang Nengguang(2)	Corporate interest	45,273,837	11.11%

Notes:

1. Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong, each an executive Director, are members of the Controlling Shareholder Group*. All members of the Controlling Shareholder Group are acting in concert. As the Controlling Shareholder Group beneficially owns the entire interests in China Sunshine Paper Investments Limited ("China Sunshine"), which in turns owns the entire interest in China Sunrise Paper Holdings Limited ("China Sunrise"), each of them are deemed to be interested in the 169,744,026 Shares held by China Sunrise and options granted to Mr. Wang Dongxing and Mr. Shi Weixin to subscribe an aggregate of 4,000,000 Shares under the Pre-IPO Share Option Scheme under the SFO.

2. Mr. Wang Nengguang, a non-executive Director, is the sole director of and controls Good Rise Holdings Limited ("Good Rise"). Accordingly, he is deemed to be interested in the 45,273,837 Shares held by Good Rise under the SFO.

* A group of 20 individuals who are the only shareholders of China Sunshine, comprising Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Wang Yilong, Ms. Wu Rong, Mr. Wang Feng, Mr. Sang Ziqian, Mr. Sang Yonghua, Mr. Wang Yongqing, Mr. Chen Xiaojun, Mr. Zheng Fasheng, Mr. Zuo Xiwei, Mr. Ma Aiping, Mr. Li Zhongzhu, Ms. Li Hua, Mr. Guo Jianlin, Mr. Sun Qingtao, Mr. Lu Yujie, Mr. Hu Gang, Mr. Zhang Zengguo and Mr. Wang Changhai.

Substantial shareholders' interests and short positions in the Shares and underlying shares of the Company

So far as the Directors are aware, as at 31 December 2007, and after taking into account the issuance of an additional 7,500,000 Shares on 3 January 2008 pursuant to the partial exercise of the over-allotment option on 31 December 2007, the following persons, other than the Directors, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in 5% or more in the Shares, underlying shares or debentures of the Company required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Long position/short position	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	169,744,026	41.66%
China Sunshine[1]	Long	Corporate interest	169,744,026	41.66%
Controlling Shareholder Group[2]	Long	Corporate interest	169,744,026	41.66%
SOF (I) Paper	Long	Beneficial interest	43,915,622	10.78%
SOF (I)[3]	Long	Corporate interest	43,915,622	10.78%
Seabright Asset Management Limited[4]	Long	Corporate interest	43,915,622	10.78%
China Everbright Limited[5, 6]	Long	Corporate interest	43,915,622	10.78%
Seagate Global Advisors, LLC[5]	Long	Corporate interest	43,915,622	10.78%
Good Rise	Long	Beneficial interest	45,273,837	11.11%
LC Fund III[7]	Long	Corporate interest	45,273,837	11.11%
LC Fund III GP Limited[8]	Long	Corporate interest	45,273,837	11.11%
Right Lane Limited[9]	Long	Corporate interest	45,273,837	11.11%
Legend Holdings Limited[10]	Long	Corporate interest	45,273,837	11.11%
The Employees' Shareholding Society of Legend Holdings Limited[11]	Long	Corporate interest	45,273,837	11.11%
The Chinese Academy of Sciences Holdings Co., Ltd.[11,12]	Long	Corporate interest	45,273,837	11.11%
Deutsche Bank AG	Long	Beneficial interest	39,912,800	9.79%

Notes:

1. As China Sunrise is wholly owned by China Sunshine, China Sunshine is deemed to be interested in the 169,744,026 Shares held by China Sunrise.

2. As Chine Sunshine is wholly-owned by the Controlling Shareholder Group, the Controlling Shareholder Group collectively and each of the members of the Controlling Shareholder Group is deemed to be interested in the 169,744,026 Shares held by China Sunrise as set out in Note 1. Please refer to the remark * to Note 1 on page 29 for the composition of the Controlling Shareholder Group.

3. As Seabright SOF (I) Paper Limited ("SOF(I) Paper") is wholly-owned by Seabright China Special Opportunities (I) Limited ("SOF(I)"), SOF(I) is deemed to be interested in the 43,915,622 Shares held by SOF(I) Paper.

4. As Seabright Asset Management Limited controls more than one third of the voting rights of SOF(I), it is deemed to be interested in the 43,915,622 Shares held by SOF(I) Paper as set out in Note 3.

5. Each of China Everbright Limited and Seagate Global Advisors, LLC controls more than one third of the voting rights of Seabright Asset Management Limited. Accordingly, each of China Everbright Limited and Seagate Global Advisors, LLC is deemed to be interested in the 43,915,622 Shares held by SOF(I) Paper as set out in Notes 3 and 4.

6. China Everbright Limited is listed on the Stock Exchange (Stock Code:165).

7. As Good Rise is wholly-owned by LC Fund III, LC Fund III is deemed to be interested in the 45,273,837 Shares held by Good Rise.

8. As LC Fund III GP Limited is the general partner of LC Fund III, LC Fund III GP Limited is deemed to be interested in the 45,273,837 Shares held by Good Rise as set out in Note 7.

9. As Right Lane Limited controls more than one third of the voting rights of LC Fund III GP Limited, Right Lane Limited is deemed to be interested in the 45,273,837 Shares held by Good Rise as set out in Notes 7 and 8.

10. As Right Lane Limited is wholly-owned by Legend Holdings Limited, Legend Holdings Limited is deemed to be interested in the 45,273,837 Shares held by Good Rise as set out in Notes 7, 8 and 9.

11. Each of the Employees' Shareholding Society of Legend Holdings Limited and the Chinese Academy of Sciences Holdings Co., Ltd. controls more than one third of the voting rights of Right Lane Limited. Accordingly, each of the Employees' Shareholding Society of Legend Holdings Limited and the Chinese Academy of Sciences Holding Co., Ltd. is deemed to be interested in the 45,273,837 Shares held by Good Rise as set out in Notes 7, 8, 9 and 10.

12. The Chinese Academy of Science Holding Co., Ltd. is a state owned enterprise.

Share Option Scheme and Pre-IPO Share Option Scheme

(a) Share Option Scheme

Pursuant to the written resolution of the Shareholders passed on 19 November 2007, a share option scheme (the "Share Option Scheme") was adopted by the Company.

The purpose of the Share Option Scheme is to motivate eligible persons ("Eligible Persons" as mentioned in the following paragraph) to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

For the purpose of the Share Option Scheme, Eligible Persons include (a) any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Employee"), any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group, ("Executive"); (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an Associate (as defined in the Listing Rules) of any of the foregoing persons.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 40,000,000 Shares (the "Scheme Mandate Limit") provided that the Company may at any time as the Board may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where the Scheme Mandate Limit is refreshed.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of the Company's issued share capital from time to time.

No option may be granted to any Eligible Person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

The period within which the options must be exercised will be specified by the Board at the time of grant, which must expire no later than 10 years from the date of grant (being the date on which the Board resolved to offer the grant of an option to the Eligible Person).

An offer of the grant of an option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of offer ("Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme ("Acceptance Date"). An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the Acceptance Date. Such remittance shall in no circumstances be refundable.

The subscription price in respect of any particular option ("Subscription Price") shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the Subscription Price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Offer Date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date.

Subject to the terms of this scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

(b) Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved by written resolutions of the Shareholders dated 19 November 2007. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

(i) The Subscription Price per Share is HK$5.4, representing a 10% discount to the final offer price per Share of the initial public offering of the Shares on the Stock Exchange on the Listing Date;

(ii) 14,400,000 Shares, representing approximately 3.53% of the issued share capital of the Company taking into account the issuance of 7,500,000 new Shares issued and allotted upon the partial exercise of the over-allotment option on 31 December 2007;

(iii) The exercise period and life of the options are different from the terms of the Share Option Scheme as detailed in the below "Movements of the share options granted under the Pre-IPO Share Option Scheme"; and

(iv) Save for the options which have been granted on 19 November 2007, no further options will be granted pursuant to the Pre-IPO Share Option Scheme on or after the Listing Date.

Movements of the share options granted under the Pre-IPO Share Option Scheme for the period from the Company's Listing Date to 31 December 2007 are as follows:

	Number of share options				
Name of Grantee	**As at 12 December 2007**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2007**	**Exercise period**
Executive Directors					
Wang Dongxing	400,000	—	—	400,000	(i)
	400,000	—	—	400,000	(ii)
	400,000	—	—	400,000	(iii)
	400,000	—	—	400,000	(iv)
	400,000	—	—	400,000	(v)
Shi Weixin	400,000	—	—	400,000	(i)
	400,000	—	—	400,000	(ii)
	400,000	—	—	400,000	(iii)
	400,000	—	—	400,000	(iv)
	400,000	—	—	400,000	(v)
Senior management and employees					
Jiao Jie	480,000	—	—	480,000	(i)
	480,000	—	—	480,000	(ii)
	480,000	—	—	480,000	(iii)
	480,000	—	—	480,000	(iv)
	480,000	—	—	480,000	(v)
Zhang Xiaohui	320,000	—	—	320,000	(i)
	320,000	—	—	320,000	(ii)
	320,000	—	—	320,000	(iii)
	320,000	—	—	320,000	(iv)
	320,000	—	—	320,000	(v)

Report of the Directors

Name of Grantee	Number of share options				Exercise period
	As at 12 December 2007	Exercised during the year	Lapsed during the year	As at 31 December 2007	
Ci Xiaolei	320,000	—	—	320,000	(i)
	320,000	—	—	320,000	(ii)
	320,000	—	—	320,000	(iii)
	320,000	—	—	320,000	(iv)
	320,000	—	—	320,000	(v)
Ruan Guoting	320,000	—	—	320,000	(i)
	320,000	—	—	320,000	(ii)
	320,000	—	—	320,000	(iii)
	320,000	—	—	320,000	(iv)
	320,000	—	—	320,000	(v)
Zhang Hongming	320,000	—	—	320,000	(i)
	320,000	—	—	320,000	(ii)
	320,000	—	—	320,000	(iii)
	320,000	—	—	320,000	(iv)
	320,000	—	—	320,000	(v)
Wang Sibo	320,000	—	—	320,000	(i)
	320,000	—	—	320,000	(ii)
	320,000	—	—	320,000	(iii)
	320,000	—	—	320,000	(iv)
	320,000	—	—	320,000	(v)

Notes:

(i) From 1 July 2008 to 31 December 2008
(ii) From 1 January 2009 to 31 December 2009
(iii) From 1 January 2010 to 31 December 2010
(iv) From 1 January 2011 to 31 December 2011
(v) From 1 January 2012 to 31 December 2012

Report of the Directors

Major customers and suppliers

During the year, the Group purchased less than 30% of its goods from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

Employees and remuneration policies

As at 31 December 2007, the Group had 1,239 full-time employees. The staff costs for FY 2007 was around RMB34.4 million, representing an increase of 92.5% over FY 2006.

The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. The employee's remuneration packages are generally determined based on their job nature and position with reference to market standards. Employees also receive certain welfare benefits. The Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

Post balance sheet event

Details of post balance sheet event are set out in note 42 to the consolidated financial statements.

Corporate governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained in this Annual Report.

Connected transactions

Certain related party transactions as disclosed in note 40 to the consolidated financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Report of the Directors

The Group has entered into two agreements with Weifang Shengtai Medicine Co., Ltd. ("Shengtai Medicine"), which is interested in 20% of the registered capital of Shengshi Thermoelectricity. The remaining 80% of the registered capital of Shengshi Thermoelectricity is held by Changle Sunshine, an indirect 99.9% subsidiary of the Company. Transactions under such two agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules and the details of such continuing connected transactions are set out below:

(a) A steam supply agreement dated 19 November 2007 was entered into between Shengtai Medicine and Shengshi Thermoelectricity. Shengshi Thermoelectricity has agreed to supply steam to Shengtai Medicine for a term of three years with retrospective effect from 1 January 2007 to 31 December 2009, renewable for term(s) of not more than three years each upon expiry. The price of steam sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of steam sold by Shengshi Thermoelectricity to Changle Sunshine and it reflects Shengshi Thermoelectricity's policy to sell steam to its shareholders who purchase steam in bulk at a discount. The Directors consider that the price of steam is fair and reasonable and on normal commercial terms.

For the financial year ended 31 December 2007, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB29.7 million, which was below the annual cap of RMB30.8 million.

(b) An electricity supply agreement dated 19 November 2007 was entered into between Shengtai Medicine and Shengshi Thermoelectricity. Shengshi Thermoelectricity has agreed to supply electricity to Shengtai Medicine for a term of three years with retrospective effect from 1 January 2007 to 31 December 2009, renewable for term(s) of not more than three years each upon expiry. The price of electricity sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of electricity sold by Shengshi Thermoelectricity to Changle Sunshine and it reflects Shengshi Thermoelectricity's policy to sell electricity to its shareholders who purchase steam in bulk at a discount. The Directors consider that the price of steam is fair and reasonable and on normal commercial terms.

For the financial year ended 31 December 2007, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB20.4 million, which was below the annual cap of RMB22.6 million.

The Directors, including the independent non-executive Directors, have reviewed the continuing connected transactions and have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(3) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) in accordance with the relevant agreements governing the transactions.

The auditor of the Company has performed certain agreed-upon procedures in respect of the continuing connected transactions mentioned above in accordance with the International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the International Federation of Accountants. The auditor has provided a letter dated 17 March 2008 to the Board confirming that the continuing connected transactions:

(1) have been approved by the Board;

(2) have been entered into in accordance with the relevant agreements governing the transactions;

(3) have not exceeded the annual cap amount as disclosed in the Prospectus; and

(4) have been entered into in accordance with the pricing policies of Shengshi Thermoelectricity with reference to similar transactions with independent third parties.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares up to the date of this report.

Auditor

The consolidated financial statements for the financial year ended 31 December 2007 have been audited by Deloitte Touche Tohmatsu who will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Dongxing
Chairman

Shenzhen, PRC, 26 March 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	6	**1,381,619**	613,367
Cost of sales		**(1,112,018)**	(494,700)
Gross profit		**269,601**	118,667
Other income	7	**36,256**	12,327
Share of result of an associate		**2,025**	1,257
Selling and distribution expenses		**(66,720)**	(41,524)
Administrative expenses		**(41,073)**	(22,072)
Other expenses		**(21,179)**	—
Finance costs	8	**(33,348)**	(12,563)
Profit before tax	9	**145,562**	56,092
Income tax expense	11	**(8,292)**	(5,932)
Profit for the year		**137,270**	50,160
Attributable to:			
Equity holders of the Company		**133,001**	49,940
Minority interests		**4,269**	220
		137,270	50,160
Earnings per share	12		
— Basic (RMB)		**0.69**	0.29
— Diluted (RMB)		**0.69**	N/A

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	**891,085**	446,215
Prepaid lease payments	14	**88,278**	39,679
Interest in an associate	15	**—**	18,246
Goodwill	16	**19,246**	554
Deferred tax assets	17	**1,087**	492
		999,696	505,186
Current assets			
Prepaid lease payments	14	**1,856**	934
Inventories	18	**177,248**	105,086
Trade receivables	19	**109,768**	64,262
Bills receivable	20	**382,398**	168,957
Prepayments and other receivables	21	**31,988**	21,200
Restricted bank deposits	22	**40,725**	64,572
Bank balances and cash	22	**648,871**	11,913
		1,392,854	436,924
Current liabilities			
Trade payables	23	**387,997**	137,780
Bills payable	24	**—**	66,998
Other payables	25	**194,836**	231,750
Income tax payable		**5,476**	952
Dividend payable		**—**	1,031
Deferred income	26	**936**	—
Bank borrowings — due within one year	27	**508,053**	323,328
		1,097,298	761,839
Net current assets (liabilities)		**295,556**	(324,915)
Total assets less current liabilities		**1,295,252**	180,271

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	29	**37,783**	1
Reserves	30	**1,062,837**	171,632
Equity attributable to equity holders of the Company		**1,100,620**	171,633
Minority interests		**37,535**	8,638
Total equity		**1,138,155**	180,271
Non-current liabilities			
Bank borrowings — due after one year	27	**132,969**	—
Other borrowings	28	**17,562**	—
Deferred tax liabilities	17	**6,566**	—
		157,097	—
Total equity and non-current liabilities		**1,295,252**	180,271

The consolidated financial statements on pages 41 to 109 were approved by the board of directors on 26 March 2008 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Zhang Zengguo
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Paid-in capital/ Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Share option reserve**	**Assets revaluation reserve**	**Statutory surplus reserve**	**Statutory public welfare reserve**	**Discretionary surplus reserve**	**Retained earnings**	**Subtotal**	**Minority interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note 30)	(note 30)			(note 30)	(note 30)	(note 30)				
At 1 January 2006	70,660	–	–	2,253	–	–	316	316	5,429	34,286	113,260	12,109	125,369
Profit for the year and total recognised income for the year	–	–	–	–	–	–	–	–	–	49,940	49,940	220	50,160
Issue of shares	1	–	–	–	–	–	–	–	–	–	1	–	1
Arising on the Group Reorganisation	(70,660)	–	(2,587)	–	–	–	–	–	–	–	(73,247)	149	(73,098)
Acquisition of subsidiaries from equity holders/third parties	–	–	–	3,454	–	–	–	–	–	–	3,454	4,885	8,339
Acquisition of additional interests in subsidiaries	–	–	–	656	–	–	–	–	–	–	656	(13,306)	(12,650)
Debt waived by an equity holder	–	–	–	5,935	–	–	–	–	–	–	5,935	–	5,935
Transfer	–	–	–	–	–	–	5,127	(316)	–	(4,811)	–	–	–
Contributions from minority shareholders	–	–	–	71,634	–	–	–	–	–	–	71,634	4,977	76,611
Dividends declared by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(396)	(396)
At 31 December 2006	1	–	(2,587)	83,932	–	–	5,443	–	5,429	79,415	171,633	8,638	180,271
Revaluation of assets arising on acquisition of a subsidiary directly recognised in equity (note 38)	–	–	–	–	–	4,196	–	–	–	–	4,196	–	4,196
Profit for the year	–	–	–	–	–	–	–	–	–	133,001	133,001	4,269	137,270
Total recognised income for the year	–	–	–	–	–	4,196	–	–	–	133,001	137,197	4,269	141,466
Arising on the Group Reorganisation	189	–	(189)	–	–	–	–	–	–	–	–	–	–
Capitalisation of loan owing to China Sunrise	3,850	265,157	–	–	–	–	–	–	–	–	269,007	–	269,007
Capitalisation of share premium	24,299	(24,299)	–	–	–	–	–	–	–	–	–	–	–
Issue of shares	9,444	557,196	–	–	–	–	–	–	–	–	566,640	–	566,640
Transaction costs attributable to issue of shares	–	(45,458)	–	–	–	–	–	–	–	–	(45,458)	–	(45,458)
Acquisition of a subsidiary from a third party	–	–	–	–	–	–	–	–	–	–	–	24,466	24,466
Transfer	–	–	–	–	–	–	15,513	–	–	(15,513)	–	–	–
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	162	162
Recognition of equity-settled share-based payments	–	–	–	–	1,601	–	–	–	–	–	1,601	–	1,601
At 31 December 2007	**37,783**	**752,596**	**(2,776)**	**83,932**	**1,601**	**4,196**	**20,956**	**–**	**5,429**	**196,903**	**1,100,620**	**37,535**	**1,138,155**

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before tax		**145,562**	56,092
Adjustments for:			
Share of profit of an associate		**(2,025)**	(1,257)
Interest income		**(2,521)**	(3,427)
Finance costs		**33,348**	12,563
Depreciation of property, plant and equipment		**35,886**	13,073
Release of prepaid lease payments		**1,237**	382
Loss on disposal of property, plant and equipment		**83**	284
Discount on acquisition of a subsidiary		**—**	(1,939)
Allowance for bad and doubtful debts		**—**	357
(Reversal of) allowance for inventories		**(863)**	863
Release of deferred income		**(104)**	—
Expense recognised in profit or loss in respect of equity-settled share-based payment		**1,601**	—
Operating cash flows before movements in working capital		**212,204**	76,991
Increase in inventories		**(60,158)**	(40,229)
(Increase) decrease in trade receivables		**(17,319)**	553
Increase in bills receivable		**(149,417)**	(42,587)
Increase in prepayments and other receivables		**(14,934)**	(3,437)
Increase (decrease) in trade payables		**201,030**	(357)
(Decrease) increase in bills payable		**(73,995)**	53,998
Increase (decrease) in other payables		**21,682**	(4,411)
Increase in deferred income		**1,040**	—
Cash generated from operations		**120,133**	40,521
Income tax paid		**(7,540)**	(4,185)
Net cash generated from operating activities		**112,593**	36,336

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(257,864)**	(169,250)
Prepaid lease payments of land use rights		**(22,072)**	(22,598)
Proceeds on disposal of property, plant and equipment		**152**	398
Cash paid for acquisition of additional interests in subsidiaries		**—**	(13,004)
Additional investment in an associate		**—**	(8,100)
Acquisition of subsidiaries	38	**(91,370)**	(5,092)
Proceed from disposal of subsidiaries in previous year		**—**	2,600
Interest received		**2,521**	3,427
Decrease (increase) in restricted bank deposits		**30,844**	(30,497)
Repayment from (advance to) directors		**120**	(84)
Repayment from (advance to) a shareholder/ immediate holding company		**1,676**	(1,676)
Repayment from other related parties		**3,016**	1,782
Net cash used in investing activities		**(332,977)**	(242,094)
Financing activities			
Proceeds from issue of shares		**566,640**	1
Payment of transaction costs attributable to issue of new shares		**(45,458)**	—
Advance from equity holders		**—**	5,935
Capital contribution by minority shareholders of subsidiaries		**162**	76,611
New borrowings raised		**700,185**	435,328
Borrowings repaid		**(496,322)**	(331,561)
Dividends paid to minority shareholders of a subsidiary		**(1,031)**	—
Interest paid		**(32,266)**	(16,923)
Repayment of advance from directors		**—**	(10)
Advance from a shareholder/immediate holding company		**166,332**	29,657
Repayment of advance from other related parties		**(900)**	(4,435)
Net cash generated from financing activities		**857,342**	194,603
Net increase (decrease) in cash and cash equivalents		**636,958**	(11,155)
Cash and cash equivalents at beginning of the year		**11,913**	23,068
Cash and cash equivalents at end of the year, representing bank balances and cash		**648,871**	11,913

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. General

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) 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 of Hong Kong Limited (the "Stock Exchange") with effect from 12 December 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The Company's ultimate holding company was China Sunshine Paper Investments Limited which was incorporated in the British Virgin Islands ("BVI") and the Company's immediate holding company was China Sunrise Paper Holdings Limited ("China Sunrise") which was incorporated in the Cayman Islands. Upon the listing of the Company's shares on the Stock Exchange, those two companies ceased to be the holding companies of the Company.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its subsidiaries operate (the functional currency of the Company and its subsidiaries).

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are production and sale of paper products.

2. Group reorganisation and basis of preparation of consolidated financial statements

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 15 October 2007. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 29 November 2007 (the "Prospectus").

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) China Sunshine Paper Group Limited was set up in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each. At the time of incorporation, 1 share was allotted and issued at par to China Sunrise, the then sole shareholder of the Company. On 16 April 2006, China Sunshine Paper Group Limited acquired 100% equity interest in 昌樂世紀陽光紙業有限公司 ("Changle Century Sunshine Paper Industry Co., Ltd.") ("Changle Sunshine").

(b) On 15 October 2007, the Group Reorganisation was completed by way of interspersing the Company between China Sunrise and China Sunshine Paper Group Limited. The shares of the Company were then issued and allotted to China Sunrise, the existing shareholder of China Sunshine Paper Group Limited in exchange for the shares in China Sunshine Paper Group Limited.

2. Group reorganisation and basis of preparation of consolidated financial statements (continued)

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting as if the group structure under the Group Reorganisation had been in existence throughout the two years ended 31 December 2007, or since their respective dates of incorporation/establishment or date of acquisition, whichever is the shorter period.

3. Adoption of new and revised international financial reporting standards

The International Accounting Standards Board issued a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and related Interpretations ("IFRICs") (hereinafter collectively referred to as "new IFRSs") which are effective for the Group's financial year beginning on 1 January 2007. The Group has applied the new IFRSs since the financial year beginning on 1 January 2004.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32&1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

3. Adoption of new and revised international financial reporting standards (continued)

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 March 2007

4 Effective for annual periods beginning on or after 1 January 2008

5 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and financial positions of the Group except for the adoption of IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidation and Separate Financial Statements. IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

4. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the accounting policies set out below which conform with IFRS.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired (excluding those in which merger accounting applied) or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

4. Significant accounting policies (continued)

Basis of consolidation (continued)

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Before qualifying as a business combination, a transaction may qualify as an investment in an associate and be accounted for in accordance with *IAS 28 Investments in Associates* using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

Merger accounting for business combinations under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control or the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Business combination other than under common control

Acquisitions of businesses are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

4. Significant accounting policies (continued)

Business combination other than under common control (continued)

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. When the Group's share of losses of an associate equals or exceeds its interest in that associates, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associates.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

4. Significant accounting policies (continued)

Goodwill (continued)

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Sales of electricity are recognised when electricity are generated and transmitted to the customers.

Sales of steam are recognised when steam are generated and delivered to the customers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Connection fee income in relation to transmission of steam is recognised on a straight line basis over the expected service period of steam transmission to be rendered.

4. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. Significant accounting policies (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property, plant and equipment, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in net profit or loss for the period in which they are incurred.

Government grants

Government grants, including value-added tax refunds are recognised as income when the Group is entitled to receive.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

4. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated balance sheet and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is released to the consolidated income statement on a straight-line basis over the lease terms.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 31.

4. Significant accounting policies (continued)

Share-based payment transactions (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (continued)

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

At the time when the equity-settled share-based payments are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the equity-settled share-based payments are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Impairment of tangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

4. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are all classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest rate.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

4. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For all loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio beyond the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other Financial liabilities

Other financial liabilities (including bank and other borrowings, trade payables, bills payable, other payables and dividend payable) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition (continued)

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets in the next financial year are discussed below.

Estimated impairment of inventories

The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and realisability of the inventories. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and allowance for inventories in the year in which such estimate has been changed. As at 31 December 2007, the carrying amount of inventories is approximately RMB177,248,000 (2006: RMB105,086,000). No allowance was made on the inventories as at 31 December 2007.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is approximately RMB19,246,000 (2006: RMB554,000). Details of the assessment are disclosed in note 16.

5. Key sources of estimation uncertainty (continued)

Estimated impairment of receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of the receivables. Allowances are applied to the receivables where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the receivables and doubtful debts expenses in the year in which such estimate has been changed. As at 31 December 2007, the aggregate carrying amount of trade, bills and other receivables is approximately RMB506,822,000 (2006: RMB250,477,000). Details of movements of allowance for doubtful receivables are disclosed in note 19.

6. Business and geographical segments

Business segments

For management reporting purpose, the Group is engaged in production/generation and sale of paper products, electricity and steam. Revenue, operating result and assets relating to electricity and steam are totally and individually below 10% of the total revenue, consolidated results and total assets respectively, so no business segment analysis is presented.

Geographical segments

The Group's assets are located in the People's Republic of China ("PRC") only and sales are in the PRC and overseas.

The following table provides an analysis of the Group's segment information by geographical location of customers, irrespective of the origin of the goods on which the Group reports its primary segment information. Revenue and result contributed by overseas countries are individually below 10% of the total revenue and segment result, respectively, so no further disclosure on geographical segments of "Overseas" is presented.

6. Business and geographical segments (continued)

Geographical segments (continued)

For the year ended 31 December 2007

	PRC RMB'000	Overseas RMB'000	Consolidated RMB'000
Revenue			
Segment revenue	1,187,046	194,573	1,381,619
Result			
Segment result	185,705	17,176	202,881
Other income			36,256
Share of result of an associate			2,025
Unallocated corporate expenses			(62,252)
Finance costs			(33,348)
Profit before tax			145,562
Income tax expense			(8,292)
Profit for the year			137,270

6. Business and geographical segments (continued)

Geographical segments (continued)

At 31 December 2007

	PRC RMB'000	Overseas RMB'000	Consolidated RMB'000
Assets			
Segment assets	366,527	8,420	374,947
Unallocated corporate assets			2,017,603
Consolidated total assets			2,392,550
Liabilities			
Segment liabilities	45,182	2,696	47,878
Unallocated corporate liabilities			1,206,517
Consolidated total liabilities			1,254,395

6. Business and geographical segments (continued)

Geographical segments (continued)

For the year ended 31 December 2006

	PRC RMB'000	Overseas RMB'000	Consolidated RMB'000
Revenue			
Segment revenue	610,024	3,343	613,367
Result			
Segment result	77,227	(84)	77,143
Other income			12,327
Share of result of an associate			1,257
Unallocated corporate expenses			(22,072)
Finance costs			(12,563)
Profit before tax			56,092
Income tax expense			(5,932)
Profit for the year			50,160

6. Business and geographical segments (continued)

Geographical segments (continued)

At 31 December 2006

	PRC RMB'000	Overseas RMB'000	Consolidated RMB'000
Assets			
Segment assets	262,174	573	262,747
Unallocated corporate assets			679,363
Consolidated total assets			942,110
Liabilities			
Segment liabilities	24,264	—	24,264
Unallocated corporate liabilities			737,575
Consolidated total liabilities			761,839

An analysis of the Group's other information including depreciation, non-cash expenses other than depreciation and capital expenditure attributable to geographical markets by location of customers are not presented as the amounts involved cannot be allocated by location of its customers.

7. Other income

	2007 RMB'000	2006 RMB'000
Net exchange gain	**584**	5,069
Discount on acquisition of subsidiary	**—**	1,939
Revenue from sale of electricity and steam	**28,789**	—
Government grants	**547**	1,011
Interest income	**2,521**	3,427
Transportation service income	**217**	—
Compensation	**1,754**	153
Others	**1,844**	728
	36,256	12,327

8. Finance costs

	2007 RMB'000	2006 RMB'000
Interest expenses on:		
bank and other borrowings wholly repayable within five years	**34,457**	16,923
bank borrowings not wholly repayable within five years	**1,082**	—
	35,539	16,923
Less: Interest capitalised in construction in progress	**(2,191)**	(4,360)
	33,348	12,563

Borrowing costs capitalised during the year ended 31 December 2007 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.69% (2006: 6.83%), to expenditure on construction in progress.

9. Profit before tax

	2007 RMB'000	2006 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**31,059**	17,079
Retirement benefits schemes contributions	**1,728**	789
Equity-settled share-based payment	**1,601**	—
Total staff costs	**34,388**	17,868
Allowance for doubtful receivables	**—**	357
(Reversal of) allowance for inventories	**(863)**	863
Release of prepaid lease payments	**1,237**	382
Auditor's remuneration	**3,061**	1,043
Depreciation of property, plant and equipment	**35,886**	13,073
Loss on disposal of property, plant and equipment	**83**	284

10. Directors' and employees' emoluments

Directors

Details of emoluments paid by the Group to the directors of the Company during the year are as follows:

	Wang Dongxing	Shi Weixin	Zhang Zengguo	Wang Yilong	Xu Fang	Wang Nengguang	Wong Wing Yee	Wang Zefeng	Xu Ye	Total 2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007										
Fees	–	–	–	–	–	–	–	–	–	–
Other emoluments	300	–	116	–	–	–	–	–	–	416
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–
Contributions to retirement benefits schemes	–	–	4	–	–	–	–	–	–	4
Equity-settled share-based payment	222	222	–	–	–	–	–	–	–	444
Total emoluments	522	222	120	–	–	–	–	–	–	864

	Wang Dongxing	Shi Weixin	Zhang Zengguo	Wang Yilong	Xu Fang	Wang Nengguang	Wong Wing Yee	Wang Zefeng	Xu Ye	Total 2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2006										
Fees	–	–	–	–	–	–	–	–	–	–
Other emoluments	250	–	147	–	–	–	–	–	–	397
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–
Contributions to retirement benefits schemes	–	–	3	–	–	–	–	–	–	3
Total emoluments	250	–	150	–	–	–	–	–	–	400

10. Directors' and employees' emoluments (continued)

Employees

The five highest paid individuals of the Group during the year, included 2 directors, details of their emoluments are set out above. The emoluments of the remaining 3 individuals during the year are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other allowances	665	447
Retirement benefits schemes contributions	4	3
Equity-settled share-based payment	267	—
	936	450

During the year, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

11. Income tax expense

	2007 RMB'000	2006 RMB'000
Current tax:		
PRC	8,720	6,332
Deferred tax (note 17):		
Current year	(547)	(400)
Attributable to a change in tax rate	119	—
	(428)	(400)
	8,292	5,932

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 33% is applied to the Company's PRC subsidiaries for the year except for the following companies which are entitled to different concessionary tax rates below.

11. Income tax expense (continued)

Pursuant to the approval of the Shandong State Tax Bureau, Changle Sunshine was changed to a foreign investment enterprise on 12 July 2006, and is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the next three years. 2006 is the first profit-making year of Changle Sunshine and, accordingly, income tax has been exempted in the second half year of 2006 and 2007.

Pursuant to the approval of the Jiangsu State Tax Bureau, 昆山世紀陽光紙業有限公司 ("Kunshan Century Sunshine Paper Industry Co., Ltd.") ("Kunshan Sunshine") was changed to a foreign investment enterprise on 1 August 2006, and is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the next three years. 2006 is the first profit-making year of Kunshan Sunshine and, accordingly, income tax has been exempted in 2006 and 2007.

Pursuant to the approval of the Shangdong Civil Administration Bureau, 昌樂彩虹包裝製品有限公司 ("Changle Rainbow Packaging Products Co., Ltd.") ("Rainbow Packaging") was entitled to be a welfare enterprise, and therefore enjoyed income tax exemption during both years.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. The New Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprises from 1 January 2008. On 28 December 2007, the State Council issued the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No.39 which will be effective from 1 January 2008. According to the circular, from 1 January 2008, the enterprises that originally enjoy the preferential treatment of regular tax reduction and exemption such as "exemption from income tax in the first two profit-making years and a fifty percent reduction in the ensuing three years" may, after the enforcement of the New Law, enjoy the original preferential treatment in accordance with the preferential measures and term stipulated by the original tax law, administrative regulations and relevant documents until after the expiration of the entitlement period, however, if an enterprise has not enjoyed tax benefit by virtue of failure to make profits, the term of tax entitlement period may be counted as of 2008. The Company's subsidiaries in PRC applied tax rate under the existing tax laws to provide for current tax. The deferred tax balance as at 31 December 2007 has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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11. Income tax expense (continued)

The charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax	**145,562**	56,092
Tax at the applicable income tax rate of 33%	**48,035**	18,510
Tax effect of income not taxable	**–**	(640)
Tax effect of expenses not deductible	**3,962**	2,510
Effect of tax exemption granted to certain subsidiaries	**(43,404)**	(14,033)
Increase in opening deferred tax assets resulting from a decrease in applicable tax rate	**119**	–
Differential tax rate on temporary difference of subsidiaries	**248**	–
Tax effect of share of result of an associate	**(668)**	(415)
Tax charge for the year	**8,292**	5,932

The details of deferred tax for the year are set out in note 17.

12. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to equity holders of the Company	**133,001**	49,940

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**193,603,000**	169,744,000
Effect of dilutive potential ordinary shares relating to outstanding share options	**330,453**	N/A
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**193,933,453**	N/A

In calculating the weighted average number of ordinary shares for the purposes of calculating basic earnings per share, the shares that were issued pursuant to the Group Reorganisation and capitalisation of share premium are treated as if they had been in issue throughout both years.

13. Property, plant and equipment

	Buildings RMB'000	Plant and machinery, and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST				
At 1 January 2006	64,239	124,794	50,705	239,738
Additions	3,297	19,661	206,399	229,357
Transfers	921	895	(1,816)	—
Acquisition of subsidiaries	379	7,441	71	7,891
Disposals	—	(917)	—	(917)
At 31 December 2006	68,836	151,874	255,359	476,069
Additions	9,285	44,275	229,533	283,093
Transfers	73,249	296,522	(369,771)	—
Acquisition of subsidiaries	44,769	153,129	—	197,898
Disposals	—	(606)	—	(606)
At 31 December 2007	**196,139**	**645,194**	**115,121**	**956,454**
DEPRECIATION				
At 1 January 2006	4,148	12,868	—	17,016
Provided for the year	3,133	9,940	—	13,073
Eliminated on disposals	—	(235)	—	(235)
At 31 December 2006	7,281	22,573	—	29,854
Provided for the year	5,503	30,383	—	35,886
Eliminated on disposals	—	(371)	—	(371)
At 31 December 2007	**12,784**	**52,585**	**—**	**65,369**
CARRYING AMOUNT				
At 31 December 2007	**183,355**	**592,609**	**115,121**	**891,085**
At 31 December 2006	61,555	129,301	255,359	446,215

13. Property, plant and equipment (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual value, at the following rates per annum:

Buildings	3.3–5%
Plant and machinery, and equipment	5.56–20%

Details of property, plant and equipment pledged are set out in note 34.

14. Prepaid lease payments

	2007	2006
	RMB'000	RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**88,278**	39,679
Current assets	**1,856**	934
	90,134	40,613

The amount represents the prepayment of rentals for land use rights in the PRC under medium-term leases for 50 years.

Details of land use rights pledged are set out in note 34.

15. Interest in an associate

	2007	2006
	RMB'000	RMB'000
Cost of unlisted investments	**–**	17,850
Share of post-acquisition reserves and profits, net of dividends received	**–**	396
Share of net assets	**–**	18,246

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15. Interest in an associate (continued)

昌樂盛世熱電有限責任公司 ("Changle Shengshi Thermoelectricity Co., Ltd.") ("Shengshi Thermoelectricity") was established in the PRC and engaged in the generation and supply of electricity and steam. The Group held 20% equity interests in Shengshi Thermoelectricity in 2006. On 29 June 2007, the Group acquired an additional 60% equity interests in Shengshi Thermoelectricity from other equity holders and Shengshi Thermoelectricity has become a subsidiary of the Group since then.

Summarised financial information in respect of the Group's associate is set out below:

	1.1 2007 to 29.6.2007 RMB'000	1.1 2006 to 31.12.2006 RMB'000
Revenue	**87,574**	84,048
Profit for the period/year	**10,123**	6,283
Group's share of profit for the period/year	**2,025**	1,257

	2007 RMB'000	2006 RMB'000
Total assets	**–**	287,252
Total liabilities	**–**	(196,022)
Net assets	**–**	91,230
Group's share of net assets	**–**	18,246

16. Goodwill

	2007 RMB'000	2006 RMB'000
COST		
At beginning of the year	**554**	200
Arising from acquisition of a subsidiary	**18,692**	—
Arising from acquisition of additional interests in a subsidiary	**—**	354
At end of the year	**19,246**	554

On 29 June 2007, Changle Sunshine acquired additional 60% equity interests in Shengshi Thermoelectricity from 濰坊市投資有限公司 ("Weifang City Investment Co., Ltd.") ("Weifang Investment") at a consideration of RMB92,092,000, resulting in goodwill of RMB18,692,000. After the acquisition, Changle Sunshine's interest in Shengshi Thermoelectricity increased from 20% to 80%.

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount of goodwill as at 31 December 2007 is allocated as follows:

	2007 RMB'000	2006 RMB'000
Paper products	**554**	554
Electricity and steam	**18,692**	—
At end of the year	**19,246**	554

Impairment assessment on goodwill was performed by management at the balance sheet dates and there was no indication of the impairment loss during the year. The recoverable amount is determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the 3-year financial budgets approved by the management and extrapolated cash flows for the following 5 years based on an estimated growth rate of 5%, and a discount rate of 6.84% and 13% for goodwill arising from acquisition of Kunshan Sunshine in respect of paper products and Shengshi Thermoelectricity in respect of electricity and steam, respectively. The growth rate used does not exceed the average long-term growth rate for the relevant markets. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of goodwill to exceed its recoverable amount.

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17. Deferred taxation

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

	Unrealised profit in inventories RMB'000	Allowance for doubtful debts and inventories RMB'000	Deferred income RMB'000	Pre-operating expenses RMB'000	Fair value adjustment on assets RMB'000	Total RMB'000
At 1 January 2006	—	92	—	—	—	92
Credited to consolidated income statement for the year (note 11)	—	400	—	—	—	400
At 31 December 2006	—	492	—	—	—	492
Change in tax rate (note 11)	—	(119)	—	—	—	(119)
Acquisition of a subsidiary	—	—	—	235	(6,634)	(6,399)
Credited (charged) to consolidated income statement for the year (note 11)	163	(226)	230	(47)	427	547
At 31 December 2007	**163**	**147**	**230**	**188**	**(6,207)**	**(5,479)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 RMB'000	2006 RMB'000
Deferred tax assets	**1,087**	492
Deferred tax liabilities	**(6,566)**	—
	(5,479)	492

18. Inventories

	2007 RMB'000	2006 RMB'000
Raw materials	**152,086**	72,375
Finished goods	**25,162**	32,711
	177,248	105,086

Details of inventories pledged are set out in note 34.

19. Trade receivables

An analysis of trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
Trade receivables due from:		
— Third parties	**105,963**	64,262
— Related parties (note 40(c))	**3,805**	—
	109,768	64,262

Included in the balance of trade receivables above, there was approximately RMB38,500,000 at 31 December 2007 (2006: Nil) pledged to banks to secure banking facilities granted to the Group (see note 34).

The Group has a policy of allowing an average credit period of 30 days to its trade customers with trading history, otherwise sales on cash terms are required. The Group's sales to related parties are entered into on the same credit terms of sales to other customers.

19. Trade receivables (continued)

The following is an aged analysis of trade receivables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0–30 days	87,215	49,617
31–90 days	18,977	11,242
91–365 days	3,389	2,930
Over 1 year	187	473
	109,768	64,262

Included in the Group's trade receivable balance are debtors with a carrying amount of RMB21,350,000 (2006: RMB14,635,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2007 RMB'000	2006 RMB'000
31–90 days	17,774	11,232
91–365 days	3,389	2,930
Over 1 year	187	473
	21,350	14,635

The following are the movements of allowance for trade receivables during the year:

	RMB'000
At 1 January 2006	548
Provided for the year	357
31 December 2006	905
Written off during the year	(20)
At 31 December 2007	**885**

19. Trade receivables (continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

20. Bills receivable

	2007 RMB'000	2006 RMB'000
Bills receivable	**382,398**	168,957

During the year, the Group has discounted bills receivable of RMB24,197,000 (2006: RMB12,211,000) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as a secured borrowing (see notes 27 and 34).

Bills receivable of approximately RMB307,962,000 (2006: RMB133,283,000) was endorsed with recourse to third parties at 31 December 2007 and corresponding trade payables of RMB307,962,000 (2006: RMB133,283,000) were included in the consolidated financial statements accordingly.

The following is an aged analysis of bills receivable at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0–90 days	**203,204**	97,637
91–180 days	**179,194**	71,320
	382,398	168,957

21. Prepayments and other receivables and cash

An analysis of deposits, prepayments and other receivables is as follows:

	2007	2006
	RMB'000	RMB'000
Prepayments	**1,504**	447
Other receivables	**14,656**	12,446
Prepayments to suppliers	**15,828**	3,495
Amount due from a director (note 40(c))	**–**	120
Amounts due from immediate holding company (note 40(c))	**–**	1,676
Amounts due from other related parties (note 40(c))	**–**	3,016
	31,988	21,200

Amounts due from related parties at 31 December 2006 were unsecured, interest-free and fully repaid during the year.

22. Restricted bank deposits and bank balances and cash

Restricted bank deposits represent the Group's bank deposits pledged to banks to secure certain bills facilities granted to the Group.

The restricted bank deposits carry market interest rate of 0.72% per annum as at 31 December 2007 (2006: 0.72% per annum).

Bank balances carry market interest rate of 0.72% per annum as at 31 December 2007 (2006: 0.72% per annum).

23. Trade payables

An analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Trade payables due to:		
— Third parties	**387,997**	131,060
— Related parties (note 40(c))	**—**	6,720
	387,997	137,780

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The following is an aged analysis of trade payables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0–90 days	**217,154**	129,899
91–365 days	**166,795**	6,987
Over 1 year	**4,048**	894
	387,997	137,780

24. Bills payable

	2007 RMB'000	2006 RMB'000
Bills payable	–	66,998

The following is an aged analysis of bills payable at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0–90 days	–	48,198
91–180 days	–	18,800
	–	66,998

25. Other payables

An analysis of other payables is as follows:

	2007 RMB'000	2006 RMB'000
Other payables	29,799	16,404
Advance from customers	35,653	5,153
Payables for construction work, machinery and equipment	129,167	103,938
Amount due to a shareholder/immediate holding company (note 40(c))	217	105,355
Amount due to a related party (note 40(c))	–	900
	194,836	231,750

26. Deferred income

The deferred income represents the connection fee income not yet recognised in relation to steam transmission services.

27. Bank borrowings

	2007 RMB'000	2006 RMB'000
Secured bank borrowings	**443,506**	221,583
Unsecured bank borrowings	**197,516**	101,745
	641,022	323,328
Included in the unsecured bank borrowings, the balance of borrowings which are guaranteed by the following parties are as follows:		
— Third parties	**39,400**	26,000
— Related parties	**—**	69,745
	39,400	95,745
The borrowings are repayable as follows:		
Within one year	**508,053**	323,328
In the second year	**27,557**	—
In the third to fifth year inclusive	**72,541**	—
Over five years	**32,871**	—
	641,022	323,328
Less: Amount due for settlement within one year and shown under current liabilities	**(508,053)**	(323,328)
Amount due after one year	**132,969**	—
Total borrowings		
— At fixed rates	**295,832**	112,307
— At floating rates	**345,190**	211,021
	641,022	323,328

27. Bank borrowings (continued)

Fixed-rate borrowings are charged at the rates ranging from 5.02% to 8.42% per annum for the year ended 31 December 2007 (2006: 5.02% to 8.42% per annum).

Interests on RMB borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China whereas interests on United States dollars borrowings at floating rates are charged at 1.03% to 2.2% over LIBOR.

For all the above bank borrowings, the effective weighted average annual rate for the year ended 31 December 2007 was 6.93% per annum (2006: 6.75% per annum).

Details of pledge of assets for the Group's secured bank borrowings and guarantees from other parties are set out in notes 34 and 37, respectively.

28. Other borrowings

	2007 **RMB'000**	2006 RMB'000
Borrowings from Weifang Investment	**17,562**	—

On 9 July 2007, the repayment due date of the borrowings from Weifang Investment was extended from 9 July 2007 to 9 July 2010. Interest is charged at prevailing borrowing rate announced by the People's Bank of China. The effective weighted average annual rate for the year ended 31 December 2007 was 5.63% per annum.

29. Share capital

	Notes	**Number of shares**	**Share capital** **HK$'000**
Authorised:			
Ordinary shares of HK$0.10 each			
At the date of incorporation	(a)	3,800,000	380
Increase during the year	(d) (i)	996,200,000	99,620
At 31 December 2007		**1,000,000,000**	**100,000**

29. Share capital (continued)

	Notes	Number of shares	Share capital HK$'000	Share capital Shown in the consolidated financial statements RMB'000
Issued and fully paid:				
At the date of incorporation	(a)	1	—	—
Issue of shares as consideration for the acquisition of a subsidiary pursuant to the Group Reorganisation	(b)	1,956,389	196	190
Capitalisation of loan owing to China Sunrise	(c), (e)	40,751,910	4,075	3,850
Capitalisation of share premium	(d) (iii)	257,291,700	25,729	24,299
Issue of shares upon listing of the Company's share on the Stock Exchange	(d) (ii)	100,000,000	10,000	9,444
At 31 December 2007		**400,000,000**	**40,000**	**37,783**

The share capital at 31 December 2006 represents the share capital of China Sunshine Paper Group Limited.

Notes:

(a) The Company was incorporated on 22 August 2007 with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. At the time of incorporation, 1 share was allotted, issued at par and fully paid.

(b) On 15 October 2007, the Company acquired the entire issued share capital of China Sunshine Paper Group Limited by exchange of its shares through the allotment and issue of 1,956,389 new shares of the Company to China Sunrise, credited as fully paid at par pursuant to the Group Reorganisation.

(c) On 29 October 2007, the Company issued an aggregate of 1,043,610 shares to Seabright SOF (I) Paper Limited, LC Fund III, L.P. and Forebright Management Limited by way of capitalisation of outstanding loans as of that date in a total sum of approximately RMB102,700,000 owing to China Sunrise.

(d) On 19 November 2007, shareholder's resolutions were passed to approve the matters set out in the paragraph headed "Written resolutions of the shareholders of the Company passed on 19 November 2007" in Appendix VII to the Prospectus, pursuant to which:

(i) The authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 divided into 1,000,000,000 ordinary shares of HK$0.10 each.

(ii) On 12 December 2007, 100,000,000 ordinary shares of HK$0.10 each of the Company were issued at HK$6.00 by way of placing and public offer ("New Issue"). On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

29. Share capital (continued)

Notes: (continued)

(iii) Subject to the share premium account of the Company being credited as a result of the New Issue, the directors of the Company were authorised to capitalise approximately HK$25,729,000 (equivalent to approximately RMB24,299,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 257,291,700 ordinary shares for allotment and issue to the shareholders of the Company on the register of the members of the Company at the close of business on 19 November 2007 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid and gave effect to the capitalisation.

(e) On 12 December 2007, the Company issued an aggregate of 39,708,300 shares to Deutsche Securities Asia Ltd. by way of capitalisation of outstanding loan as of that date in a total sum of approximately RMB166,307,000 owing to China Sunrise.

30. Reserves

Merger Reserve

The merger reserve of the Company represents the difference between the consideration of the subsidiary acquired by the Group and the nominal amount of the Company's shares issued under the Group Reorganisation.

Capital reserve

Capital reserve including the contribution from equity holders of the Company as the result of debts waived by equity holders of the Company, discount on acquisition of subsidiaries from equity holders of the Company and debit reserve of additional acqusition of subsidiary from equity holders of the Company.

The capital reserve other than those arising from acquisition of subsidiaries from equity holders and acquisition of additional interests in subsidiaries of the PRC companies in the Group (the "PRC Companies") may be applied for conversion into capital.

Statutory surplus reserve/discretionary surplus reserve

In accordance with relevant PRC Company laws and regulations, the PRC Companies are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. Allocation to the discretionary surplus reserve shall be approved by the shareholders in general meeting. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC Companies' registered capital.

Both surplus reserves may be used to make up losses or for conversion into capital. The PRC Companies may, upon the approval by a resolution of shareholders' general meeting, convert its surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC Companies' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

30. Reserves (continued)

Statutory public welfare reserve

In accordance with relevant PRC Company laws and regulations, all the PRC Companies are required to appropriate 5% to 10% of the profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory public welfare reserve. The statutory public welfare reserve shall only apply to collective welfare of staff and workers and welfare facilities remain as properties of the Group.

The statutory public welfare reserve is non-distributable. When the statutory public welfare reserve is utilised, an amount equal to the cost of the assets acquired is transferred to discretionary surplus reserve. On disposal of the relevant asset, the original transfers from the reserve are reversed. Pursuant to a circular [2006] No. 67 issued by Ministry of Finance, there will be no accrual of statutory public welfare fund started from 1 January 2006. The remaining balance of the statutory public welfare reserve of the Group is transferred to its statutory surplus reserve.

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31. Share-based payment transaction

Pursuant to a resolution in writing passed on 19 November 2007 by all shareholders of the Company, two share option schemes have been adopted by the Company which would be applicable to grant of share options before and after the Company's listing on the Main Board of the Stock Exchange on 12 December 2007, respectively, hereinafter referred to as Pre-IPO Share Option Scheme and Share Option Scheme, respectively.

(a) Pre-IPO Share Option Scheme

On 19 November 2007, the Company granted options to the grantees to subscribe for 14,400,000 shares in the Company at an exercise price of HK$5.4 per share.

Details of Pre-IPO Share Options are as follows:

Date of grant	Vesting period	Exercise period	Maximum number of options exercisable	Life of options
19 November 2007	19 November 2007 to 30 June 2008	1 July 2008 to 31 December 2008	2,880,000	6 months
19 November 2007	19 November 2007 to 31 December 2008	1 January 2009 to 31 December 2009	2,880,000	1 year
19 November 2007	19 November 2007 to 31 December 2009	1 January 2010 to 31 December 2010	2,880,000	1 year
19 November 2007	19 November 2007 to 31 December 2010	1 January 2011 to 31 December 2011	2,880,000	1 year
19 November 2007	19 November 2007 to 31 December 2011	1 January 2012 to 31 December 2012	2,880,000	1 year

31. Share-based payment transaction (continued)

(a) Pre-IPO Share Option Scheme (continued)

Movement of options under Pre-IPO Share Option Scheme during the year ended 31 December 2007 is as follows:

		Number of options			
	Exercise price	Granted on 19.11.2007	Exercised during the year ended 31.12.2007	Forfeited during the year ended 31.12.2007	Outstanding at 31.12.2007
	HK$				
Directors of the Company	5.40	4,000,000	—	—	4,000,000
Senior management of the Company	5.40	7,200,000	—	—	7,200,000
Other employees of the Company	5.40	3,200,000	—	—	3,200,000
		14,400,000	—	—	14,400,000

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

The fair value of the options determined at the date of grant using the Binomial Model is approximately HK$23,815,000 (equivalent to RMB22,301,000). The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	19.11.2007
Weighted average share price	HK$6
Exercise price	HK$5.4
Expected volatility	34%
Expected life	0.9 year to 4.8 years
Risk-free rate	1.88%–3.09%
Expected dividend yield	1%

31. Share-based payment transaction (continued)

(a) Pre-IPO Share Option Scheme (continued)

Expected volatility has made reference to the historical volatility of the price of listed companies with similar business to the Group.

The Group recognised an expense of RMB1,601,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 19 November 2007, the Board may, at its absolute discretion, offer any employee, director, consultant or advisor of the Company, its subsidiaries, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise of the share option will be determined at the highest of (1) the nominal value of a share; (2) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (3) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date. No share option was granted under the Share Option Scheme during the year.

32. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 27, other borrowings disclosed in note 28 and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the repayment of existing debt.

33. Financial instruments

(a) Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables	**1,196,418**	326,962
Financial liabilities		
Amortised cost	**1,183,809**	748,945

(b) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk management

PRC subsidiaries of the Company with functional currency of RMB have certain foreign currency sales, purchases, bank balances and cash and bank borrowings denominated in US Dollars and Hong Kong Dollars, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

33. Financial instruments (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follow:

	2007 **RMB'000**	2006 RMB'000
Assets		
US Dollars		
Bank balances and cash	**245,525**	3,177
Trade receivables	**7,177**	581
Hong Kong Dollars		
Bank balances and cash	**297,509**	—
Trade receivables	**2,030**	—
Other receivables	**6,036**	—

	2007 **RMB'000**	2006 RMB'000
Liabilities		
US Dollars		
Trade payables	**65,602**	14,055
Bank borrowings	**156,390**	53,817

33. Financial instruments (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

Sensitivity Analysis

The Group is mainly exposed to the fluctuation in US Dollars and Hong Kong Dollars against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where the RMB strengthens against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	Impact of US Dollars			**Impact of Hong Kong Dollars**		
	2007 RMB'000	2006 RMB'000		**2007 RMB'000**	2006 RMB'000	
Increase (decrease) in profit for the year	**(1,536)**	3,206	(a)	**(15,279)**	—	(b)

(a) This is mainly attributable to the exposure outstanding on receivables, bank balances, payables and bank borrowings denominated in US Dollars not subject to cash flows hedged at year end.

(b) This is mainly attributable to the exposure to bank balances denominated in Hong Kong Dollars year end.

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings subject to negotiation on annual basis (see note 27 for details of these borrowings). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

33. Financial instruments (continued)

(b) Market risk (continued)

(ii) Interest rate risk management (continued)

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see notes 27 and 28 for details of these borrowings), restricted bank deposits and bank balances and cash (see note 22).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank and other borrowings, restricted bank deposits and bank balances and cash, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the balance sheet date, if interest rates had been increased (decreased) by 100 basis points and all other variables were held constant, the Group's profit would increase (decrease) by approximately RMB3,268,000 for the year ended 31 December 2007 (2006: RMB(1,345,000)).

33. Financial instruments (continued)

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, bank balances and deposits. At the balance sheet date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC and Hong Kong.

(d) Liquidity risk management

The Group manages liquidity risk by maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings from time to time.

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33. Financial instruments (continued)

(d) Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.68%	–	104,202	204,915	–	–	–	309,117	295,832
Variable-rate bank borrowings	6.74%	–	121,246	110,488	37,295	88,362	35,621	393,012	345,190
Other borrowings	5.63%	–	494	494	988	18,114	–	20,090	17,562
Trade payables	–	170,843	217,154	–	–	–	–	387,997	387,997
Other payables	–	87,394	6,831	43,003	–	–	–	137,228	137,228
		258,237	449,927	358,900	38,283	106,476	35,621	1,247,444	1,183,809
At 31 December 2006									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	7.03%	–	53,229	63,407	–	–	–	116,636	112,307
Variable-rate bank borrowings	7.04%	–	96,469	122,746	–	–	–	219,215	211,021
Trade payables	–	7,881	129,899	–	–	–	–	137,780	137,780
Bills payable	–	–	66,998	–	–	–	–	66,998	66,998
Other payables	–	163,959	2,958	52,891	–	–	–	219,808	219,808
Dividend payable	–	1,031	–	–	–	–	–	1,031	1,031
		172,871	349,553	239,044	–	–	–	761,468	748,945

(e) Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

34. Pledge of assets

At the balance sheet date, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the balance sheet date is as follows:

	2007 RMB'000	2006 RMB'000
Buildings	**155,152**	46,521
Plant, machinery and equipment	**403,273**	96,319
Prepaid lease payments	**58,780**	17,020
Inventories	**44,018**	12,723
Trade receivables	**38,500**	—
Bills receivable	**24,197**	12,211
Restricted bank deposits	**40,725**	64,572
	764,645	249,366

35. Capital commitments

	2007 RMB'000	2006 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted but not provided for in the consolidated financial statements	**89,944**	51,470

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

36. Operating leases

The Group as lessee

	2007 RMB'000	2006 RMB'000
Minimum lease payments paid under operating leases during the year:		
Premises	**265**	243

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	**240**	236

37. Guarantees

	2007 RMB'000	2006 RMB'000
Guarantees received from other parties in respect of banking facilities granted to the Group:		
山東省企業信用擔保有限責任公司 (Shandong Enterprise Credit Guarantee Co., Ltd.)	**15,000**	—
濰坊市信用擔保公司 (Weifang Credit Guarantee Co., Ltd.)	**24,400**	—
	39,400	—

According to the directors, the above companies provided guarantees to the banks for the Group's bank borrowings, under their normal course of business.

38. Acquisition of businesses

A summary of the effect of acquisition of businesses through acquisition of subsidiaries during the year is as below. The acquisitions were accounted for using the purchase method of accounting.

	2007 **RMB'000**	2006 RMB'000
Fair value of net assets acquired:		
Property, plant and equipment	**197,898**	7,891
Prepaid lease payments	**28,686**	1,334
Inventories	**11,141**	3,479
Trade receivables	**28,187**	16,137
Bills receivable	**64,024**	660
Prepayments and other receivables	**666**	849
Restricted bank deposits	**6,997**	—
Bank balances and cash	**722**	1,816
Trade payables	**(49,187)**	(5,797)
Bills payable	**(6,997)**	—
Other payables	**(18,668)**	(8,548)
Other borrowings	**(29,946)**	—
Income tax payable	**(3,344)**	—
Dividend payable	**—**	(635)
Bank borrowings	**(101,447)**	—
Deferred tax liabilities	**(6,399)**	—
	122,333	17,186
Minority interests	**(24,466)**	(4,885)
Interest in an associate	**(20,271)**	—
Revaluation increase on interests previously held by the Group	**(4,196)**	—
Goodwill (discount on acquisition)	**18,692**	(5,393)
Total consideration, satisfied by cash	**92,092**	6,908
Net cash flow arising on acquisition:		
Cash consideration paid	**(92,092)**	(6,908)
Cash and cash equivalents acquired	**722**	1,816
	(91,370)	(5,092)

38. Acquisition of businesses (continued)

For the subsidiaries acquired during the year ended 31 December 2006, if the acquisition had been completed on 1 January 2006, total group revenue for the year would have been RMB622,271,000, and profit for the year would have been RMB50,693,000.

For the acquisition of Shengshi Thermoelectricity for the year ended 31 December 2007, if the acquisition had been completed on 1 January 2007, total group revenue for the period would have been RMB1,381,619,000, and profit for the year would have been RMB145,000,000.

The above financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the respective year, nor is it intended to be a projection of future results.

Particulars of the subsidiaries acquired during the year ended 31 December 2007 and 31 December 2006 were as follows:

Acquired company	Acquisition date	Equity interests acquired	Consideration RMB'000
Year ended 31 December 2006			
Rainbow Packaging	February 2006	88.89%	4,800
昌樂申易運輸有限公司 ("Changle Shenyi Transportation Co., Ltd.") ("Shenyi Transportation")	March 2006	51.24%	2,108
Year ended 31 December 2007			
Shengshi Thermoelectricity	**June 2007**	**60%**	**92,092**

The acquisitions were accounted for using the purchase method of accounting.

38. Acquisition of businesses (continued)

(a) In February 2006, the Group acquired 88.89% equity interests of Rainbow Packaging for a cash consideration of RMB4,800,000.

The net assets acquired in the transaction and the discount on acquisition arose, are as follows:

	Acquiree's carrying amount before acquisition RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	4,193	—	4,193
Prepaid lease payments	951	383	1,334
Inventories	2,400	—	2,400
Trade receivables	5,834	—	5,834
Bills receivable	660	—	660
Prepayments and other receivables	498	—	498
Bank balances and cash	1,708	—	1,708
Trade payables	(5,588)	—	(5,588)
Other payables	(1,752)	—	(1,752)
	8,904	383	9,287
Minority interests			(1,033)
Discount on acquisition, credited to capital reserve			(3,454)
Total consideration, satisfied by cash			4,800
Net cash flow arising on acquisition:			
Cash consideration paid			(4,800)
Cash and cash equivalents acquired			1,708
			(3,092)

Rainbow Packaging contributed revenue of RMB27,517,000 and profit of RMB2,437,000 to the Group's profit for the period between the date of acquisition and 31 December 2006.

38. Acquisition of businesses (continued)

(b) In March 2006, the Group acquired 51.24% equity interests of Shenyi Transportation for a cash consideration of RMB2,108,000.

The net assets acquired in the transaction and the discount on acquisition arose, are as follows:

	Acquiree's carrying amount before acquisition RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	3,698	—	3,698
Inventories	1,079	—	1,079
Trade receivables	10,303	—	10,303
Prepayments and other receivables	351	—	351
Bank balances and cash	108	—	108
Trade payables	(209)	—	(209)
Other payables	(6,796)	—	(6,796)
Dividend payable	(635)	—	(635)
	7,899	—	7,899
Minority interests			(3,852)
Discount on acquisition			(1,939)
Total consideration, satisfied by cash			2,108
Net cash flow arising on acquisition:			
Cash consideration paid			(2,108)
Cash and cash equivalents acquired			108
			(2,000)

Shenyi Transportation contributed revenue of RMB16,620,000 and profit of RMB765,000 to the Group's profit for the period between the date of acquisition and 31 December 2006.

38. Acquisition of businesses (continued)

(c) On 29 June 2007, the Group acquired 60% equity interests of Shengshi Thermoelectricity for a cash consideration of RMB92,092,000.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amount before acquisition RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	189,410	8,488	197,898
Prepaid lease payments	11,907	16,779	28,686
Inventories	9,871	1,270	11,141
Trade receivables	28,187	—	28,187
Bills receivable	64,024	—	64,024
Prepayments and other receivables	666	—	666
Restricted bank deposits	6,997	—	6,997
Bank balances and cash	722	—	722
Trade payables	(49,187)	—	(49,187)
Bills payable	(6,997)	—	(6,997)
Other payables	(18,668)	—	(18,668)
Other borrowings	(29,946)	—	(29,946)
Deferred income	(1,436)	1,436	—
Income tax payable	(3,344)	—	(3,344)
Bank borrowings	(101,447)	—	(101,447)
Deferred tax liabilities	594	(6,993)	(6,399)
	101,353	20,980	122,333
Minority interests			(24,466)
Reclassified from the Group's interest in an associate			(20,271)
Revaluation increase on interests previously held by the Group			(4,196)
Goodwill			18,692
Total consideration, satisfied by cash			92,092
Net cash flow arising on acquisition:			
Cash consideration paid			(92,092)
Cash and cash equivalents acquired			722
			(91,370)

38. Acquisition of businesses (continued)

Shengshi Thermoelectricity contributed income of RMB28,789,000 included in other income and profit of RMB14,558,000 to the Group's profit for the period between the date of acquisition and 31 December 2007.

39. Major non-cash transactions

During the year ended 31 December 2007, the Company issued an aggregate of 40,751,910 shares to Seabright SOF (I) Paper Limited, LC Fund III, L.P., Forebright Management Limited and Deutsche Securities Asia Ltd. by way of capitalisation of outstanding loans as of that date in a total sum of approximately RMB269,007,000 owing to the Company's shareholder, China Sunrise as described in note 29 (c) and (e).

40. Related party transactions

(a) Name and relationship with related parties

Name	Relationship
China Sunrise	Shareholder of the Company
Rainbow Packaging	Controlled by certain equity holders of the Company (Note i)
Shengshi Thermoelectricity	Associate (Note ii)
Shenyi Transportation	Interest held by certain equity holders of the Company with significant influence (Note iii)
濰坊盛泰藥業有限公司 ("Weifang Shengtai Medicine Co., Ltd.") ("Shengtai Medicine")	Minority shareholder of Shengshi Thermoelectricity
Wang Dongxing	Director and an equity holder of the Company
Sang Yonghua	Equity holder of the Company
Wang Sibo	Minority shareholder of Shenyi Transportation

Notes:

(i) The company became a subsidiary of the Company since 1 March 2006.

(ii) The company became a subsidiary of the Company since 29 June 2007.

(iii) The company became a subsidiary of the Company since 1 April 2006.

40. Related party transactions (continued)

(b) The Group entered into the following significant transactions with its related parties, prior to the date they became a group company, if applicable, during the year:

	2007 RMB'000	2006 RMB'000
Sales of goods		
— Shengtai Medicine	**28,789**	—
— Rainbow Packaging	**—**	857
Purchase of raw materials		
— Shengshi Thermoelectricity	**67,078**	63,672
— Rainbow Packaging	**—**	177
Transportation service provided by Shenyi Transportation	**—**	4,366

40. Related party transactions (continued)

(c) Balances with related parties

	2007 RMB'000	2006 RMB'000
Trade receivable from a minority shareholder of a subsidiary — Shengtai Medicine	3,805	—
Amount due from a director — Wang Dongxing (Note i)	–	120
Amount due from a shareholder/immediate holding company — China Sunrise	–	1,676
Amounts due from other related parties		
— Shengshi Thermoelectricity	–	2,996
— Sang Yonghua	–	20
	–	3,016
Trade payable to an associate — Shengshi Thermoelectricity	–	6,720
Amount due to a shareholder/immediate holding company — China Sunrise (Note ii)	217	105,355
Amount due to a related party — Wang Sibo	–	900

Notes:

(i) Pursuant to the listing rules of Appendix 16 Disclosure of Financial Information in Annual Report, the maximum balance outstanding for amount due from a director during the year was:

	2007 RMB'000	2006 RMB'000
Wang Dongxing	120	120

(ii) The balance as at 31 December 2007 represented the Company's staff costs paid by China Sunrise on behalf of the Company which was subsequently settled after 31 December 2007. Such transitional arrangement made during 2007 was one-off and will not continue in the future.

40. Related party transactions (continued)

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 RMB'000	2006 RMB'000
Short term employee benefit	1,632	1,294
Retirement benefit scheme contributions	8	6
Equity-settled share-based payment	1,601	—
	3,241	1,300

41. Retirement benefit scheme contributions

The Group have participated in certain defined contribution retirement schemes managed by the respective municipal governments where the Group operates, covering all permanent staff of the Group. The Group has no obligation beyond the contributions which are calculated based on 18% to 20% of permanent staff basic salaries during the year.

42. Post balance sheet events

On 3 January 2008, the Company issued an additional 7,500,000 ordinary shares of HK$0.10 each at the price of HK$6.00 per share by means of partial exercise of the over-allotment option as set out in the Prospectus.

43. Particulars of subsidiaries

The particulars of subsidiaries of the Company as at the balance sheet date are set out as follows:

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held by the Company 2007	2006	Principal activity
Directly held						
China Sunshine Paper Group Limited 中國陽光紙業集團有限公司	Private limited company	British Virgin Islands	USD1	**100.00%**	–	Investment holding
Indirectly held						
China Ramble Paper Company Limited 中國遠博紙業集團有限公司	Private limited company	Hong Kong	HKD1	**100.00%**	–	Investment holding
昌樂世紀陽光紙業有限公司 ("Changle Century Sunshine Paper Industry Co., Ltd.")	Sino-foreign joint equity venture	PRC	USD33,404,500	**99.90%**	99.90%	Manufacture of paper
昌樂彩虹包裝製品有限公司 ("Changle Rainbow Packaging Products Co., Ltd.")	Private limited company	PRC	RMB5,400,000	**88.89%**	88.89%	Manufacture of paper products
昆山世紀陽光紙業有限公司 ("Kunshan Century Sunshine Paper Industry Co., Ltd.")	Sino-foreign joint equity venture	PRC	USD2,495,000	**100.00%**	100.00%	Manufacture of paper products
昌樂昌東廢紙收購有限責任公司 ("Changle Changdong Waste Paper Recovery Co., Ltd.")	Private limited company	PRC	RMB246,600	**100.00%**	100.00%	Waste paper trading
昌樂申易運輸有限公司 ("Changle Shenyi Transportation Co., Ltd.")	Private limited company	PRC	RMB8,820,000	**51.24%**	51.24%	Provision for transportation services
昌樂盛世熱電有限責任公司 ("Changle Shengshi Thermoelectricity Co., Ltd.")	Private limited company	PRC	RMB89,250,000	**80.00%**	20.00%	Generation and supply of electricity and steam

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the four years ended 31 December:

	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Revenue	**1,381,619**	613,367	447,277	244,686
Profit before taxation	**145,562**	56,092	42,559	6,973
Taxation	**(8,292)**	(5,932)	(914)	(2,493)
Minority interests	**(4,269)**	(220)	806	(58)
Profit attributable to shareholders	**133,001**	49,940	42,451	4,422
Assets				
Non-current assets	**999,696**	505,186	248,625	173,815
Current assets	**1,392,854**	436,924	312,601	219,123
Total assets	**2,392,550**	942,110	561,226	392,938
Liabilities				
Non-current liabilities	**157,097**	—	(56,900)	(5,100)
Current liabilities	**1,097,298**	(761,839)	(378,957)	(337,029)
Total liabilities	**1,254,395**	(761,839)	(435,857)	(342,129)
Capital and reserves				
Total equity	**1,138,155**	180,271	125,369	50,809
Minority interests	**(37,535)**	(8,638)	(12,109)	—
Capital and reserves attributable to the Company's equity holders	**1,100,620**	171,633	113,260	50,809

Notes:

1. The Company was incorporated on 22 August 2007 in Cayman Islands and became the holding company of the Group with effect from 15 October 2007 upon the completion of the Reorganization as set out in the Prospectus.

2. The results of the Group for the three years ended 31 December 2006 and the balance sheets of the Group as at 31 December 2004, 2005 and 2006 are extracted from the Prospectus.