中國陽光紙業控股有限公司*

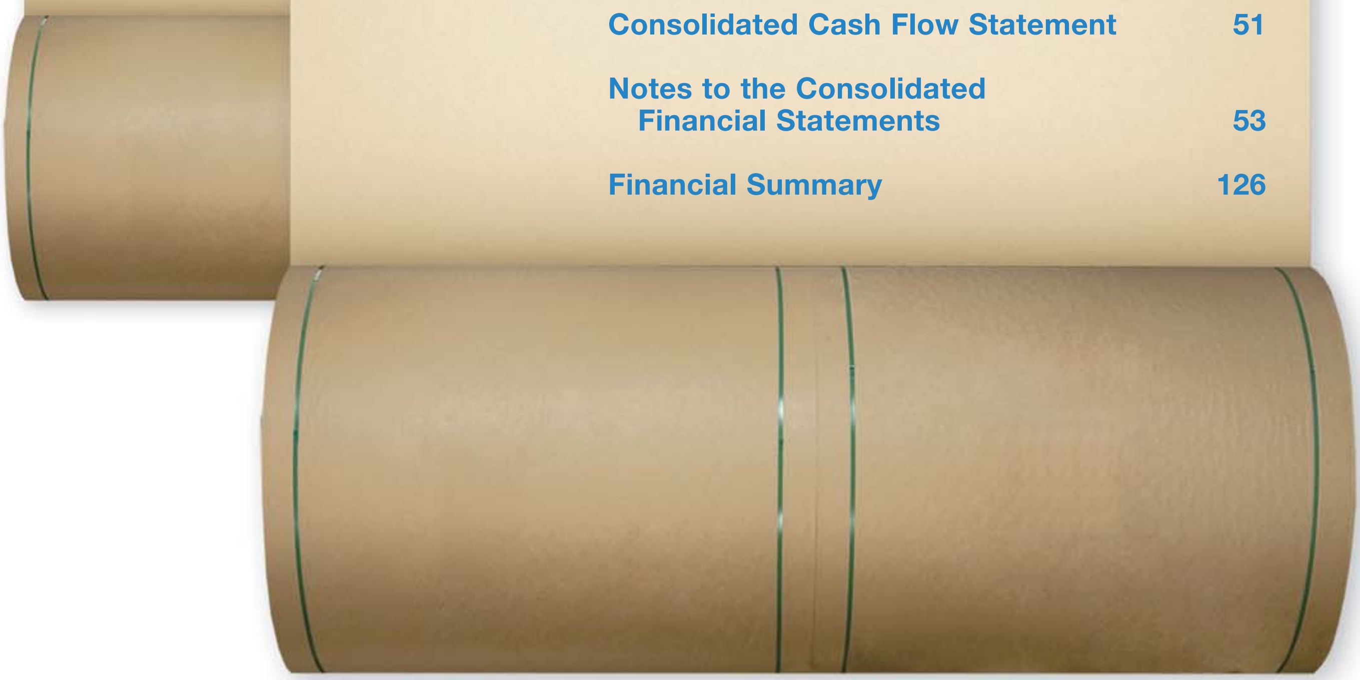
China Sunshine Paper Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2002

Annual Report 2008

*For identification purposes only

Contents



Corporate Information

Board of directors

Executive Directors
Mr. Wang Dongxing
(Chairman and General Manager)
Mr. Shi Weixin *(Vice Chairman)*
Mr. Zhang Zengguo *(Deputy General Manager)*
Mr. Wang Yilong

Non-executive Directors
Mr. Wang Nengguang
Mr. Xu Fang

Independent non-executive Directors
Mr. Wang Zefeng
Ms. Wong Wing Yee, Jessie
Mr. Xu Ye

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

Joint company secretaries

Mr. Ng Cheuk Him *CPA, ACCA, ACS*
Ms. Jiao Jie

Authorised representatives

Ms. Jiao Jie
Mr. Wang Dongxing

Principal place of business in China

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal place of business in Hong Kong

43th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Registered office

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

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

Corporate Information

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

Auditors

Deloitte Touche Tohmatsu
35th Floor One Pacific Place
88 Queensway
Hong Kong

Compliance adviser

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

Legal advisers

Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP
(as to Hong Kong law)
Conyers Dill & Pearman (as to Cayman Islands law)

Principal bankers

Agricultural Bank of China
Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

Stock code

2002

Website

www.sunshinepaper.com.cn

Chairman's Statement

The Group posted a 25.0% growth in revenue to RMB1,764.6 million for FY2008

Dear Shareholders,

The year 2008 is the first full financial year of China Sunshine Paper Holdings Company Limited (the "Company") following its listing on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 12 December 2007. It is my pleasure to present the annual report of the Company and its subsidiaries (collectively referred as the "Group") for the financial year ended 31 December 2008 ("FY 2008").

Business Review

2008 has effectively been a year of two halves. During the first half of 2008, the Company recorded an impressive growth in its revenue and profit. In the second half of 2008, the accelerating global economic downturn as a result of the U.S. subprime crisis and Lehman Brothers' bankruptcy, coupled with the large fluctuation in raw material price in the fourth quarter of 2008 pressured the profit margin of the Group. Despite this difficult economic environment, the Group still posted a 25.0% growth in revenue to RMB1,764.6 million as compared to RMB1,411.7 million for the financial year ended 31 December 2007 ("FY 2007"). However, rapidly falling selling price of the Group's paper products and tremendous fluctuation in raw material price in the fourth quarter of 2008 eroded most of the profit margin. The increase in certain non-core expenses, such as the recognition of share-based payments for unexercised share option

Chairman's Statement

and the listing-related professional expenses further pressured the profit margin. As a result, the profits attributable to the equity holders for FY 2008 were RMB64.4 million, representing a decrease of 51.6% as compared to FY 2007.

Production Facilities

With the addition of 200,000 tonnes core board production capacity in September 2008, the Group has 6 efficient production lines with the estimated annual production capacity of approximately 610,000 tonnes as at 31 December 2008. Prior to the completion of the seventh production lines with annual production capacity of 500,000 tonnes white top linerboard and light-coated linerboard, the Group will further enhance its production capacity by conducting research and development, and upgrading the existing machines.

The following table sets forth information relating to the six production lines of the Group as at 31 December 2008.

Paper product	Production line	Estimated annual production capacity (tonnes)
White top linerboard	PL1	120,000
White top linerboard and light-coated linerboard *	PL2	220,000
Core board	PL3, PL4, PL6	260,000
Specialized paper products	PL5	10,000
		610,000

* PL2 is interchangeably for production of white top linerboard and light-coated linerboard.

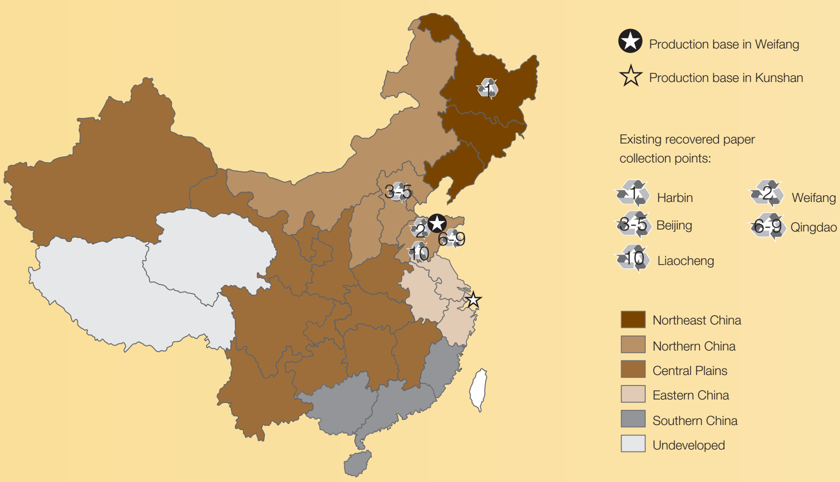
Chairman's Statement

We will progressively expand our recovered paper collection base by increasing 5 to 10 collection points in China

Recovered Paper Collection Base

As at 31 December 2008, the Group finished the construction of 10 recovered paper collection points in Weifang, Beijing, Qingdao, Liaocheng and Harbin. These 10 recovered paper collection points collected approximately 45,000 tonnes of domestic recovered paper and represented around 18% of the annual consumption of domestic recovered paper. We will progressively expand our recovered paper collection base by increasing 5 to 10 collection points in China.

The following map shows the geographical location of the Group's production bases and recovered paper collection points in China as at 31 December 2008:



Chairman's Statement

Outlook

In 2009, we continue to face challenges from raw material costs and selling price pressures which may erode the profit margin of the Group. However, there are also certain encouraging news, including, among others, inventories with higher purchase cost have been fully absorbed in January 2009, the cost of raw materials decreased in the first quarter of 2009, and the selling price of the Group's product also rebounded recently. We will continue to adjust our business strategies to overcome all difficulties.

Recently, we have enhanced the standard of modernised enterprise management through the implementation of the ERP system, integrated supply resources to reduce purchase cost and developed three new products with high added value which would be launched to the market soon. It is expected that the above measures will have significant contribution to the results of the Group. We also have sufficient low-cost raw material in reserve, which will further contribute to the Group's performance in 2009.

We will orderly reschedule the production expansion plan for white top linerboard and light-coated linerboard production lines in response to the market changes. Meanwhile, we will progressively expand our recovered paper collection base by increasing 5 to 10 collection points in China, of which most of them will be based in Shangdong Province. We believe the orderly rescheduling of the production expansion plan and the progressive expansion

Chairman's Statement

of recovered paper collection base will ensure and enhance our competitive edge in the paper industry. We are still optimistic about the growth potential in the paper industry in the long run.

Finally, I would like to take this opportunity to express my gratitude, on behalf of the Board, to all shareholders, customers, suppliers, banks, professional parties and employees of the Group for their continuous support.

Wang Dongxing
Chairman
Shandong, PRC,

7 April 2009

Management Discussion and Analysis

Management Discussion and Analysis

Sales

Sales of paper products remained the core business of the Group and it represented 96.2% of the total sales. The remaining 3.8% was from sales of electricity and steam. Notwithstanding the difficult economic environment, it is notable that the Group's sales of paper products still recorded an increase of approximately 22.8% by revenue for FY 2008, as compared to RMB1,381.6 million for FY 2007.

The sale of light-coated linerboard has increased by nearly 7 times to RMB401.0 million for FY 2008. The increase was mainly driven by the fast growing consumer markets in China. In addition, some customers ordered light-coated linerboard to substitute white top linerboard as light-coated linerboard allows superior printability by offering better brightness and delivering better ink transfer quality, even though the selling price of light-coated linerboard is higher than that of the white-top linerboard. As the Group's production line can produce both white top linerboard and light-coated linerboard interchangeably, customers' shifting orders between white top linerboard and light-coated linerboard would not have any negative impact to the Group.

The increase in sales of core board primarily resulted from (i) increased demand attributable to favourable industrial market condition in the first half of FY 2008, and (ii) increased production volume as the Group's sixth production line for core board products commenced operation in September 2008.

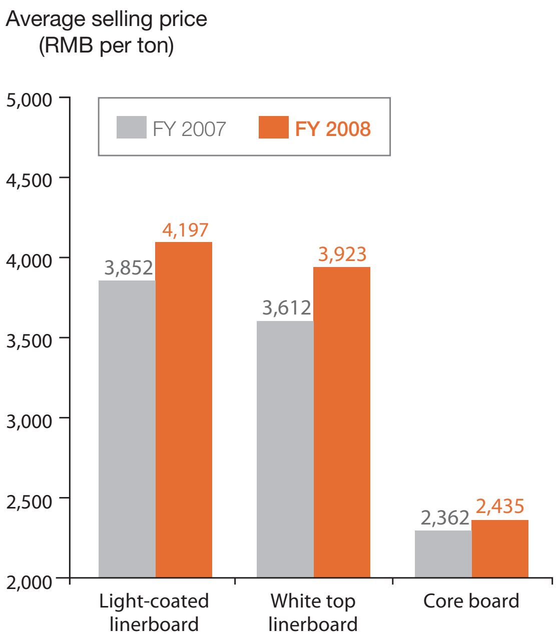
Management Discussion and Analysis

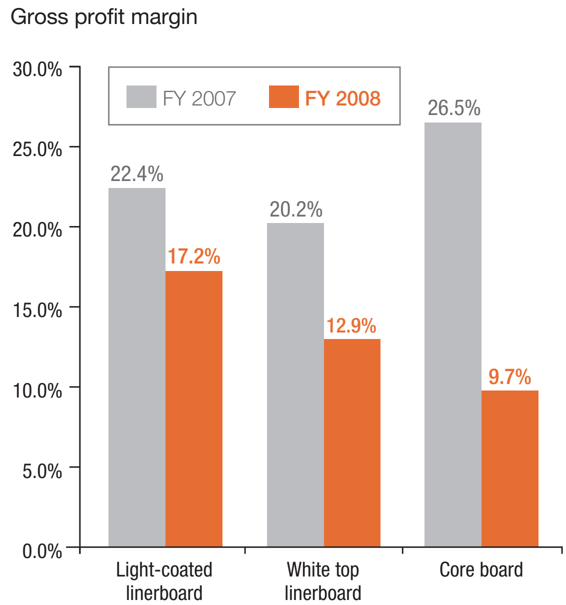
The following table sets out the sales and gross profit margin by product categories:

	Year ended 31 December					
	2008			2007		
	RMB'000	%	Gross profit margin (%)	RMB'000	%	Gross profit margin (%)
White top linerboard	**903,466**	**53.3**	**12.9**	1,054,899	76.3	20.2
Light-coated linerboard	**401,026**	**23.6**	**17.2**	45,270	3.3	22.4
Core board	**227,911**	**13.4**	**9.7**	143,124	10.4	26.5
Specialized paper products	**164,404**	**9.7**	**5.4**	138,326	10.0	5.9
Total	**1,696,807**	**100.0**	**13.0**	1,381,619	100.0	19.5

China market remained the key market of the Group. Domestic sales of paper products accounted for 94.7% and 86.2% of the Group's total sales of paper products for FY 2008 and FY 2007, respectively.

The following charts set out the average selling prices ("ASP") and the gross profit margins of white top linerboard, light-coated linerboard and core board for FY2007 and FY2008:





Management Discussion and Analysis

No ASP 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.

The ASP of the Group's paper products in FY 2008 recorded a single-digit increase as compared to that in FY 2007. It was primarily resulted from the steady increase in selling price in the first three quarters in FY 2008, which out-weighted the rapidly falling in selling price in the fourth quarter in FY 2008. The ASP of the Group's paper products have been rebounded in the first quarter 2009.

The gross profit margin in FY 2008 has been eroded by the rapidly falling selling price of the Group's paper products and the tremendous fluctuation in raw material price in the fourth quarter of 2008. In addition, a provision for inventories of RMB4.7 million has further eroded the gross profit margin in FY2008. The gross profit margin of core board recorded a significant decrease as most of the core board was sold to customers in textile and chemical fiber industries, whose businesses were seriously affected by the financial tsunami.

Cost of sales

Raw materials

Domestic recovered paper, overseas recovered paper and kraft pulp 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. Raw material costs were RMB1,217.2 million and RMB885.6 million, respectively, and accounted for 78.9% and 78.1% of the Group's cost of sales for FY 2008 and FY 2007, respectively.

Labour costs and overhead costs

Labour costs increased by RMB8.3million or 31.4% to RMB34.8 million for FY 2008. The increase was mainly driven by the increase in production capacity. As the paper industry is not a labour intensive industry and thus, the additional staff cost resulted from the implementation of the new PRC Labour Contract Law would not have any material impact on the Group. Overhead costs relating to production and manufacturing include depreciation charges, utility expenses, other factory overheads and related expenses. Overhead costs were RMB290.6 million and RMB221.1 million, respectively, and accounted for 18.8% and 19.5% of the Group's cost of sales, respectively, for FY 2008 and FY 2007.

Management Discussion and Analysis

The following table sets out the Group's breakdown of the cost of sales for FY2008 and FY2007:

	Year ended 31 December			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Raw materials cost				
Domestic recovered paper	**483,528**	**31.3**	320,461	28.3
Overseas recovered paper	**275,756**	**17.9**	197,289	17.4
Kraft pulp	**209,290**	**13.6**	164,601	14.5
Chemicals and others	**248,675**	**16.1**	203,253	17.9
	1,217,249	**78.9**	885,604	78.1
Labour costs	**34,790**	**2.3**	26,484	2.4
Overhead costs	**290,572**	**18.8**	221,109	19.5
Total	**1,542,611**	**100.0**	1,133,197	100.0

The table below shows the Group's average purchase price of major raw materials for FY 2008 and FY 2007.

	FY 2008	FY 2007	Increase/ (decrease)
	RMB/ton	RMB/ton	%
Domestic recovered paper	**1,918**	1,616	18.7
Overseas recovered paper	**1,869**	1,624	15.1
Kraft pulp	**5,230**	5,540	(5.6)

Domestic recovered paper remained the largest raw material component. Around 18% of the domestic recovered paper was sourced from the Group's ten recovered paper collection points, which located mainly in Northern China and Eastern China regions. Overseas recovered paper and kraft pulp were mainly sourced from the United States and European countries.

Gross profit and gross profit margin

Gross profit decreased by RMB56.5 million to RMB221.9 million in FY 2008. The decrease was primarily due to the fact that the Group was unable to fully pass on the rising costs to its customers as a result of the rapid fall in the selling price of the Group's paper products and the volatile raw material prices in the fourth quarter of FY 2008. The gross profit margin was 12.6% for FY 2008 as compared to 19.7% for FY 2007.

Management Discussion and Analysis

Other income

The increase in other income of RMB44.1 million was mainly contributed by the increase in exchange gain of RMB18.6 million, bank interest income of RMB11.4 million and interest income from loan receivables of RMB8.7 million.

Profit before tax

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. Measures taken by the Group to tighten cost control reduced the distribution costs down to 4.2% as a percentage of revenue for FY 2008 as compared to 4.7% for FY 2007. Administrative expenses mainly consist of administrative staff salaries and their related expenses, depreciation, listing-related professional charges, provision for inventories and share based payments for share option granted. Administrative expenses were RMB76.9 million or 4.4% as a percentage of revenue for FY 2008, as compared to RMB41.1 million or 2.9% as a percentage of revenue for FY 2007. The substantial increase was primarily driven by the increase in (i) share-based payment for unexercised share option of approximately RMB8.9 million, (ii) the listing related professional expenses of approximately RMB3.0 million, (iii) depreciation and amortization of approximately RMB3.8 million and (iv) the staff cost of approximately RMB7.8 million resulted from the commencement of the Group's sixth production line operation.

Other expense represented the exchange loss arising on the translation of monetary items.

Finance costs

Finance costs were RMB48.2 million and RMB33.3 million, respectively, for FY 2008 and FY 2007. The increase in finance costs reflected the Group's increased bank borrowings to fund the expansion of its production capacity and its daily operations.

Income tax expenses

The income tax credit was because of the deferred tax income of RMB6.4 million exceeded the tax expenses of RMB5.0 million. The deferred tax income of RMB6.4 million mainly consisted of temporary differences between the carrying amounts and the corresponding tax bases of the allowances for doubtful debts and inventories, and the deferred income.

Net profit attributable to the equity holders of the Company

As a result of the factors discussed above, the net profit attributable to the equity holders of the Company for FY 2008 decreased by RMB68.6 million or 51.6% to RMB64.4 million from RMB133.0 million for FY 2007.

Liquidity and Financial Resources

Current assets and current liabilities

The Group had net current liabilities of RMB190.7 million as at 31 December 2008 as compared to its net current assets of RMB296.4 million as at 31 December 2007. The net current liabilities resulted from the Group relied primarily on short term bank borrowings, which were mainly provided by commercial banks in China and subject to annual renewal, to finance capital expenditures. In view of the turbulence in the global financial markets, the Group has already taken several measures to strengthen its liquidity position, including restructuring short term loans to long term loans, and negotiating syndicated mid to long term loans.

The trade receivables increased from RMB110.0 million as at 31 December 2007 to RMB171.4 million as at 31 December 2008. The increase in trade receivables was mainly due to the fact that the Group extended the credit period for certain customers in the fourth quarter of 2008 to lower their stresses of short-term cash flow. Notwithstanding the significant increase in trade receivables, subsequent to FY 2008, most of trade receivables which were past due as at 31 December 2008 were fully settled.

The inventories increased by RMB49.0 million or approximately 27.6%, from RMB177.2 million as at 31 December 2007 to RMB226.2 million as at 31 December 2008. The increase was in line with the increase in sales of the Group's paper products. A provision for inventories of RMB4.7 million has been made in FY 2008 (FY 2007: Nil). Directors are of the opinion that sufficient provision has been made against the inventories, and all high-cost inventories have been fully absorbed in January 2009.

The inventory turnover days slightly improved from 57.1 days in FY 2007 to 53.5 days in FY 2008. The trade receivable turnover days increased from 28.4 days in FY 2007 to 35.4 days in FY 2008, which was in line with the average credit period of 30 days given to customers. The trade payable days decreased from 124.9 days in FY 2007 to 88.8 days in FY 2008.

Cashflow and borrowings

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers. As at 31 December 2008, the Group had total borrowings of RMB950.9 million (31 December 2007: RMB634.4 million). These bank loans were secured by corporate guarantees and assets of the Group. The Group's net borrowings to equity ratio (total borrowings net of cash and bank balances, and restricted bank deposits, over the total equity) was around 0.48 times in FY 2008 (FY 2007: net cash position). The IPO proceeds of approximately RMB521.2 million received in December 2007 has resulted in the Group recording a net cash position as at 31 December 2007.

As at 31 December 2008, the Group's assets of approximately RMB1,067.1 million (2007: RMB764.6 million) were pledged to secured banking facilities.

As at 31 December 2008, the Group had credit facilities around RMB1,724.8 million, of which around RMB791.3 million were unutilized.

In view of the Group's current funds and the unutilized banking facilities, the Group is confident that there are sufficient resources to meet its capital expenditure and debt repayment requirements.

Management Discussion and Analysis

Capital expenditure

During FY 2008, the Group's expenditure for the purchase of property, plant and equipment totaled RMB620.5 million. Given the current economic downturn, the Group has orderly rescheduled the production expansion plan to address the changes in the market. However, the Group is still optimized for the growth potential in the paper industry in the long run after the current global economic downturn.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB672.0 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 31 December 2008.

As at 31 December 2008, the Group had no material contingent liabilities.

Employees and remuneration policies

As at 31 December 2008, the Group had around 1,500 full-time employees. The staff costs for FY 2008 was around RMB69.8 million, representing an increase of 102.9% over FY 2007. The increase was mainly driven by the increase in production capacity, the commencement of operation of the Group's sixth production line and the recognition of share-based payment for unexercised share options.

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

	Net proceeds raised		Utilised proceeds		Unutilized proceeds	
	RMB'000	%	RMB'000	%	RMB'000	%
Establishment of the seventh production line*	493,000	87.7	197,000	76.1	296,000	97.6
Expansion of recovered Paper collection points	44,800	8.0	44,800	17.3	—	—
Research and development costs	19,600	3.5	15,000	5.8	4,600	1.5
Installation of enterprise resource planning system	4,800	0.8	2,200	0.8	2,600	0.9
	562,200	100.0	259,000	100.0	303,200	100.0

The unutilized proceeds are primarily deposited with licensed banks as short-term deposits in China and Hong Kong.

* The seventh production line is interchangeable for production of 500,000 tonnes of white top lineboard and light-coated lineboard.

Director, 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	46	Chairman and general manager
Mr. Shi Weixin	52	Vice chairman
Mr. Zhang Zengguo	43	Deputy general manager
Mr. Wang Yilong	46	
Non-executive Directors		
Mr. Wang Nengguang	51	
Mr. Xu Fang	31	
Independent non-executive Directors		
Mr. Wang Zefeng	48	
Ms. Wong Wing Yee, Jessie	43	
Mr. Xu Ye	36	

Executive Directors

Mr. Wang Dongxing, aged 46, 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 Century Sunshine Paper Industry Co., Ltd. ("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 Holdings Limited ("Shandong Chenming"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 1812), which was mainly engaged in the business of production of machine-made paper, paper plate, paper materials and paper-making related machineries

Director, Senior Management and Staff

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.

Mr. Shi Weixin, aged 52, 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 43, 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 46, 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.

Director, Senior Management and Staff

Non-executive Directors

Mr. Wang Nengguang, aged 51, 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 on the Main Board of the Stock Exchange, since February 2003.

Mr. Xu Fang, aged 31, 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.

Independent Non-executive Directors

Mr. Wang Zefeng, aged 48, 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.

Ms. Wong Wing Yee, Jessie, aged 43, 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 other directorships and positions at other listed companies.

Director, Senior Management and Staff

Mr. Xu Ye, aged 36, 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. Ci Xiaolei, aged 33, 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.

Mr. Hu Gang, aged 53, is the deputy general manager of the Group, and is responsible for the 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. Jia Haitao, aged 36, is the deputy general manager of the Group, and is responsible for the management of the accounting and finance of the Group's subsidiaries in PRC. Mr. Jia joined the Group in 2001. Mr. Jia has over 17 years of working experience in financial management and accounting in China. Mr. Jia graduated from Shandong Province Weifang School of Commerce majoring in accounting and finance in 1992.

Mr. Ruan Guoting, aged 52, 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.

Director, Senior Management and Staff

Mr. Sang Ziqian, aged 54, is the deputy general manager of the Group, and is responsible for production management. He is also the general manager of Changle Shengshi Thermoelectricity Co., Ltd. ("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 office in Shandong Chenming, Mr. Sang was primarily responsible for sales, after-sale service and client relationship management.

Mr. Wang Changhai, aged 38, 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.

Ms. Zhang Xiaohui, aged 47, 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. Ng Cheuk Him, aged 34, joined in the Company as a chief financial controller in March 2009, and has been appointed as a joint company secretary of the Company in April 2009. Prior to joining the Group, Mr. Ng held a senior position in an international corporate and investment bank in Hong Kong. Mr. Ng has over 11 years of working experience in corporate financial management, accounting and auditing, including managerial experience in a Hong Kong listed company and an international accounting firm. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants, the Association of Certified Chartered Accountants, and the Hong Kong Institute of Chartered Secretaries.

Ms. Jiao Jie, aged 28, 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.

Director, Senior Management and Staff

JOINT COMPANY SECRETARIES

Mr. Ng Cheuk Him. Please refer to the paragraph headed "Senior Management" for his biography.

Ms. Jiao Jie. Please refer to the paragraph headed "Senior Management" for her 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. During the year ended 31 December 2008, 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"), 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 year ended 31 December 2008.

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 12 December 2007. In accordance with the articles of association of the Company, one third (or not less than one third) in number of the Directors of the Company 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 Yilong, Mr. Wang Nengguang and Mr. Xu Ye will retire from office at the forthcoming annual general meeting of the Company. Mr. Wang Yilong and Mr. Xu Ye, being eligible, will offer themselves for re-election. Mr. Wang Nengguang will not offer himself for re-election at the forthcoming annual general meeting. The Board proposed to elect Mr. Wang Junfeng as a non-executive Director in place of Mr. Wang Nengguang.

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. During the year ended 31 December 2008, seven board meetings were held and all directors have attended such meetings.

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 of 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 chairlady of the audit committee. Two audit committee meetings were held during the year ended 31 December 2008 and all members have attended such meetings.

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

Corporate Governance Report

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 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. One remuneration committee meeting was held during the year ended 31 December 2008 and all members have attended such meeting.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the fee paid/payable to the auditors of the Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.5 million and RMBNil, respectively.

INTERNAL CONTROL

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 year ended 31 December 2008, 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 year ended 31 December 2008, 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 45 to 46.

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 (Chairlady), 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

Two audit committee meetings were held during the year ended 31 December 2008 and all members have attended such meetings.

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 year ended 31 December 2008;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2008;
- reviewed the external auditor's audit plan, 2008 letter of representation and audit engagement letter;
- considered and approved the 2008 external audit fees;
- reviewed the Company's internal control systems; and
- reviewed the "Continuing Connected Transactions" set out on pages 42 to 43 of this Annual Report.

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.

Report of the Audit Committee

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 2009.

For the year ended 31 December 2008, the external auditors of the Company received/will receive approximately RMB1.5 million in total for their audit services rendered. The external auditors have not provided any non-audit services to the Company during the year ended 31 December 2008.

Report of the Directors

The Directors present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

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 year ended 31 December 2008 are set out in the consolidated financial statements on page 47.

Dividend

Director proposes to declare a final dividend of RMB3.2 cents (equivalent to HK3.6 cents) per ordinary share for the year ended 31 December 2008, which will be subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 26 May 2009. If approved, the proposed final dividend will be paid to shareholders on or before 12 June 2009.

Reserves

Details of the change in reserves of the Group for the year ended 31 December 2008 are set out in the consolidated financial statements on page 50.

Donations

During to financial year ended 31 December 2008, the Group donated a total of RMB0.1 million (2007: RMB0.9 million) for charitable purpose.

Property, plant and equipment

Details of the movements in the property, plant and equipment, and land use rights of the Group during the year ended 31 December 2008 are set out in notes 16 and 17 to the consolidated financial statements.

Report of the Directors

Share capital

Details of the movements in the share capital of the Company during the year ended 31 December 2008 are set out in note 33 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 five financial years is set out on page 126.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 45 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group are set out in notes 31 and 32 to the consolidated financial statements.

Report of the Directors

Purchase, sale or redemption of securities

During the year ended 31 December 2008, the Company repurchased its shares on the Stock Exchange for purpose of enhancing its earnings per share as follows:

Month/Year	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$
August 2008	139,000	2.69	2.39	349,170
September 2008	850,000	2.43	2.04	1,977,795
October 2008	5,467,000	2.30	1.24	10,797,090
	6,456,000			13,124,055

The nominal value of the cancelled shares were credited to the capital redemption reserve and the aggregated consideration was paid out of the retained profits.

The repurchase of the Share was effected by the Directors pursuant to the mandate obtained from the Shareholders, at the last annual general meeting held on 8 May 2008.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Directors

The Directors who held office during the year ended 31 December 2008 and up to the date of this report were:

Executive Directors

Mr. Wang Dongxing *(Chairman and general manager)*
Mr. Shi Weixin *(Vice chairman)*
Mr. Zhang Zengguo *(Deputy general manager)*
Mr. Wang Yilong

Report of the Directors

Non-executive Directors

Mr. Wang Nengguang
Mr. Xu Fang

Independent non-executive Directors

Mr. Wang Zefeng
Ms. Wong Wing Yee, Jessie
Mr. Xu Ye

In accordance with the articles of association of the Company, Mr. Wang Yilong, Mr. Wang Nengguang and Mr. Xu Ye will retire at the forthcoming annual general meeting of the Company. Mr. Wang Yilong and Mr. Xu Ye, being eligible, will offer themselves for re-election. Mr. Wang Nengguang will not offer himself for re-election at the forthcoming annual general meeting. The Board proposed to elect Mr. Wang Junfeng as a non-executive Director in place of Mr. Wang Nengguang.

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 Directors has entered into a service contract dated 19 November 2007 with the Company for a term of three years commencing from 12 December 2007 (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.

Report of the Directors

Details of directors' emolument for each of the Directors for the year ended 31 December 2008 are set out in note 12 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).

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 year.

Directors' interests in securities

As at 31 December 2008, the Directors of the Company 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:

(a) Long positions in the Company:

Name of Director	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Corporate interest(1)	175,843,526	43.85%
Mr. Shi Weixin	Corporate interest(1)	175,843,526	43.85%
Mr. Zhang Zengguo	Corporate interest(1)	175,843,526	43.85%
Mr. Wang Yilong	Corporate interest(1)	175,843,526	43.85%
Mr. Wang Nengguang	Corporate interest(2)	45,273,837	11.29%

Report of the Directors

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 172,643,526 shares held by China Sunrise and options granted to Mr. Wang Dongxing and Mr. Shi Weixin to subscribe an aggregate of 3,200,000 shares under the Pre-IPO Share Option Scheme under the SFO. Please refer to Note 2 on page 36 for the composition of the Controlling Shareholder Group.

2. Mr. Wang Nengguang, a non-executive Director, is the sole director of 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.

(b) Long positions in underlying shares:

Movements of the share options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2008 are as follows:

		Number of share options				
Name of Director	Date of Grant	As at 1 January 2008	Exercised during the year	Lapsed during the year	As at 31 December 2008	Exercise period
Wang Dongxing	19 November 2007	400,000	—	400,000	—	(i)
	19 November 2007	400,000	—	—	400,000	(ii)
	19 November 2007	400,000	—	—	400,000	(iii)
	19 November 2007	400,000	—	—	400,000	(iv)
	19 November 2007	400,000	—	—	400,000	(v)
Shi Weixin	19 November 2007	400,000	—	400,000	—	(i)
	19 November 2007	400,000	—	—	400,000	(ii)
	19 November 2007	400,000	—	—	400,000	(iii)
	19 November 2007	400,000	—	—	400,000	(iv)
	19 November 2007	400,000	—	—	400,000	(v)

Notes:

(i) From 1 July 2008 to 31 December 2008

(ii) From 1 January 2009 to 31 December 2009

Report of the Directors

(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

Save as disclosed above, no other option was granted, cancelled or lapsed during the year ended 31 December 2008.

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 2008, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name	Long position/short position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	172,643,526	43.05%
China Sunshine[1]	Long	Corporate interest	172,643,526	43.05%
Controlling Shareholder Group[2]	Long	Corporate interest	172,643,526	43.05%
SOF (I) Paper	Long	Beneficial interest	43,915,622	10.95%
SOF (I)[3]	Long	Corporate interest	43,915,622	10.95%
Seabright Asset Management Limited[4]	Long	Corporate interest	43,915,622	10.95%
China Everbright Limited[5, 6]	Long	Corporate interest	43,915,622	10.95%
Seagate Global Advisors, LLC[5]	Long	Corporate interest	43,915,622	10.95%
Good Rise	Long	Beneficial interest	45,273,837	11.29%
LC Fund III[7]	Long	Corporate interest	45,273,837	11.29%
LC Fund III GP Limited[8]	Long	Corporate interest	45,273,837	11.29%
Right Land Limited[9]	Long	Corporate interest	45,273,837	11.29%
Legend Holdings Limited[10]	Long	Corporate interest	45,273,837	11.29%
The Employees' Shareholding Society of Legend Holdings Limited[11]	Long	Corporate interest	45,273,837	11.29%
The Chinese Academy of Sciences Holdings Co., Ltd.[11, 12]	Long	Corporate interest	45,273,837	11.29%
Deutsche Bank AG	Long	Beneficial interest	34,293,800	8.55%
	Long	Security interest in shares	10,408,500	2.6%

Notes:

1. As China Sunrise is wholly owned by China Sunshine, China Sunshine is deemed to be interested in the 172,643,526 shares held by China Sunrise.

2. As Chine Sunshine is wholly-owned by 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 (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 172,643,526 shares held by China Sunrise as set out in Note 1.

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 the China Everbright Limited and the 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 the 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 is 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.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at 31 December 2008.

Report of the Directors

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 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 per cent 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.

Report of the Directors

The exercisable of the option is subject to both the achievement of the operating and financial targets of the Group, and the annual appraisal result of the grantees of the option. The Remuneration Committee and the Directors will be jointly responsible for monitoring the operating and financial targets of the Group, and the annual appraise of the grantees.

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 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.

Report of the Directors

(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 Options 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 12 December 2007;

(ii) 14,400,000 shares, representing approximately 3.53% of the issued share capital of the Company taking into account of 7,500,000 shares issued and allotted upon the partial exercise of 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 "movement of the share option 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 have been granted pursuant to the Pre-IPO Share Option Scheme up to the date of this report.

Movements of the share options granted to other eligible participants under the Pre-IPO Share Option Scheme for the year ended 31 December 2008 are as follows:

	Number of share options				
Date of Grant	As at 1 January 2008	Exercised during the year	Lapsed during the year	As at 31 December 2008	Exercise period
19 November 2007	2,880,000	—	2,880,000	—	(i)
19 November 2007	2,880,000	—	—	2,880,000	(ii)
19 November 2007	2,880,000	—	—	2,880,000	(iii)
19 November 2007	2,880,000	—	—	2,880,000	(iv)
19 November 2007	2,880,000	—	—	2,880,000	(v)

Report of the Directors

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

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 2008, the Group had around 1,500 full-time employees. The staff costs for the year ended 31 December 2008 was around RMB69.8 million, representing an increase of 102.9% over last year.

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.

Corporate governance

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

Report of the Directors

Connected transactions

Certain related party transactions as disclosed in note 43 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.

The Group has entered into two agreements with Weifang Shengtai Medicine Co., Ltd ("Shengtai Medicine"), who 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 as 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 year ended 31 December 2008, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB42.4 million, which was below the annual cap of RMB42.5 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 year ended 31 December 2008, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB22.7 million, which was below the annual cap of RMB24.4 million.

Report of the Directors

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 1 April 2009 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 disclosed in the prospectus of the Company dated 29 November 2007 (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.

Compliance with Non-Competition Deed

Each of China Sunrise, China Sunshine and members of the Controlling Shareholder Group (the "Convenantors") has confirmed to the Company of its/his/her compliance with the non-competition undertaking provided to the Company under the Non-competition Deed (as defined in the Prospectus). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertaking under the Non-competition Deed have been complied with by the Convenantors.

Report of the Directors

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.

Auditors

The consolidated financial statements for the year ended 31 December 2008 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

Hong Kong, 7 April 2009

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 consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 125, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and the 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 the true 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 the true and fair presentation of the 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 do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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 true 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 the directors, 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.

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 2008, 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

7 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (restated)
Revenue	7	**1,764,552**	1,411,681
Cost of sales		**(1,542,611)**	(1,133,197)
Gross profit		**221,941**	278,484
Other income	9	**54,521**	10,401
Share of result of an associate		**—**	2,025
Selling and distribution expenses		**(74,939)**	(66,720)
Administrative expenses		**(76,933)**	(41,073)
Change in fair value of derivative financial instruments		**(3,997)**	—
Other expenses		**(7,726)**	(4,207)
Finance costs	10	**(48,150)**	(33,348)
Profit before tax	11	**64,717**	145,562
Income tax credit (expense)	13	**1,471**	(8,292)
Profit for the year		**66,188**	137,270
Attributable to:			
Equity holders of the Company		**64,356**	133,001
Minority interests		**1,832**	4,269
		66,188	137,270
Earnings per share	15		
— Basic (RMB)		**0.16**	0.69
— Diluted (RMB)		**N/A**	0.69

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**1,502,266**	891,085
Prepaid lease payments	17	**90,257**	88,278
Goodwill	18	**18,692**	19,246
Deferred tax assets	19	**8,672**	1,087
		1,619,887	999,696
Current assets			
Prepaid lease payments	17	**1,936**	1,856
Inventories	20	**226,156**	177,248
Loans receivable	21	**40,811**	—
Trade receivables	22	**171,442**	109,768
Bills receivable	23	**412,252**	382,398
Prepayments and other receivables	24	**32,770**	31,988
Derivative financial instruments	29	**2,434**	—
Restricted bank deposits	25	**233,190**	40,725
Bank balances and cash	25	**122,689**	648,871
		1,243,680	1,392,854
Current liabilities			
Trade payables	26	**375,217**	387,997
Other payables	27	**64,811**	65,452
Payable for construction work, machinery and equipment		**155,107**	129,167
Amount due to a related party		**—**	217
Income tax payable		**3,145**	5,476
Dividend payable		**44**	—
Deferred income — current portion	28	**1,365**	104
Derivative financial instruments	29	**6,431**	—
Discounted bill financing	30	**43,804**	24,197
Bank borrowings — due within one year	31	**784,432**	483,856
		1,434,356	1,096,466
Net current (liabilities) assets		**(190,676)**	296,388
Total assets less current liabilities		**1,429,211**	1,296,084

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	33	**37,872**	37,783
Reserves	34	**1,166,392**	1,062,837
Equity attributable to equity holders of the Company		**1,204,264**	1,100,620
Minority interests		**31,205**	37,535
Total equity		**1,235,469**	1,138,155
Non-current liabilities			
Bank borrowings — due after one year	31	**149,067**	132,969
Other borrowings	32	**17,442**	17,562
Deferred income — non-current portion	28	**19,504**	832
Deferred tax liabilities	19	**7,729**	6,566
		193,742	157,929
Total equity and non-current liabilities		**1,429,211**	1,296,084

The consolidated financial statements on pages 47 to 125 were approved by the board of directors on 7 April 2009 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 2008

	Attributable to equity holders of the Company												
	Paid-in capital/ share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000 (note 34)	Capital reserve RMB'000 (note 34)	Share option reserve RMB'000	Assets revaluation reserve RMB'000 (note 34)	Statutory surplus reserve RMB'000 (note 34)	Discretionary surplus reserve RMB'000 (note 34)	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	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	–	–	–	–	–	–	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
Acquisition of additional interests in a subsidiary (note)	–	–	–	–	(178)	–	–	–	–	–	(178)	(7,537)	(7,715)
Profit for the year	–	–	–	–	–	–	–	–	–	64,356	64,356	1,832	66,188
Total recognised income for the year	–	–	–	–	(178)	–	–	–	–	64,356	64,178	(5,705)	58,473
Issue of shares upon exercise of over-allotment option	699	–	41,219	–	–	–	–	–	–	–	41,918	–	41,918
Transaction costs attributable to issue of shares	–	–	(1,471)	–	–	–	–	–	–	–	(1,471)	–	(1,471)
Shares repurchased and cancelled	(610)	610	–	–	–	–	–	–	–	(11,499)	(11,499)	–	(11,499)
Transfer	–	–	–	–	–	–	–	9,550	–	(9,550)	–	–	–
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	415	415
Dividend declared by a subsidiary to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,040)	(1,040)
Recognition of equity-settled share-based payments	–	–	–	–	–	10,518	–	–	–	–	10,518	–	10,518
At 31 December 2008	**37,872**	**610**	**792,344**	**(2,776)**	**83,754**	**12,119**	**4,196**	**30,506**	**5,429**	**240,210**	**1,204,264**	**31,205**	**1,235,469**

Note: During the year ended 31 December 2008, the Group acquired additional equity interests of 48.76% in its subsidiary, 濰坊申易物流有限公司 (Weifang Shenyi Logistic Co., Ltd.) ("Weifang Shenyi") (originally named as 昌樂申易運輸有限公司 ("Changle Shenyi Transportation Co., Ltd.")) from Wang Sibo and Xia Lianbao, and debit reserve of RMB178,000 was recognised in capital reserve.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before tax	**64,717**	145,562
Adjustments for:		
Share of profit of an associate	**—**	(2,025)
Interest income	**(22,622)**	(2,521)
Finance costs	**48,150**	33,348
Depreciation of property, plant and equipment	**50,694**	35,886
Impairment loss recognised in respect of goodwill	**554**	—
Release of prepaid lease payments	**1,865**	1,237
Loss on disposal of property, plant and equipment	**520**	83
Discount on acquisition of a subsidiary	**(2,109)**	—
(Reversal of) allowance for inventories	**4,737**	(863)
Release of deferred income	**(1,365)**	(104)
Expense recognised in profit or loss in respect of equity-settled share-based payment	**10,518**	1,601
Loss on fair value changes of derivative financial instrument	**3,997**	—
Operating cash flows before movements in working capital	**159,656**	212,204
Increase in inventories	**(53,645)**	(60,158)
Increase in trade receivables	**(61,674)**	(17,319)
Increase in bills receivable	**(29,854)**	(149,417)
Increase in prepayments and other receivables	**(782)**	(14,934)
(Decrease) increase in trade payables	**(11,409)**	201,030
Decrease in bills payable	**—**	(73,995)
Decrease (increase) in other payables	**(9,894)**	21,682
Increase in deferred income	**1,743**	1,040
Cash generated from operations	**(5,859)**	120,133
Income tax paid	**(7,282)**	(7,540)
Net cash generated from operating activities	**(13,141)**	112,593

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(620,436)**	(257,864)
Prepaid lease payments of land use rights	**(3,924)**	(22,072)
Proceeds on disposal of property, plant and equipment	**610**	152
Acquisition of additional interests in subsidiaries	**(5,606)**	—
Acquisition of subsidiaries (Note 42)	**—**	(91,370)
Government grants received	**19,555**	—
Interest received	**21,811**	2,521
(Increase) decrease in restricted bank deposits	**(192,465)**	30,844
Advance to loans receivable	**(150,000)**	—
Repayment of advance to loan receivable	**110,000**	—
Repayment from (advance to) directors	**—**	120
Repayment from (advance to) a shareholder/immediate holding company	**—**	1,676
Repayment from other related parties	**—**	3,016
Net cash used in investing activities	**(820,455)**	(332,977)
Financing activities		
Proceeds from issue of shares	**41,918**	566,640
Payment of transaction costs attributable to issue of new shares	**(1,471)**	(45,458)
Payment on repurchase of shares	**(11,499)**	—
Capital contribution by minority shareholders of subsidiaries	**415**	162
New borrowings raised	**1,001,395**	675,988
Borrowings repaid	**(684,841)**	(474,111)
Increase in discounted bill financing	**19,607**	1,986
Dividends paid to minority shareholders of a subsidiary	**—**	(1,031)
Interest paid	**(56,897)**	(32,266)
Dividend paid	**(996)**	—
(Repayment to) advance from a shareholder/immediate holding company	**(217)**	166,332
Repayment to other related parties	**—**	(900)
Net cash generated from financing activities	**307,414**	857,342
Net increase (decrease) in cash and cash equivalents	**(526,182)**	636,958
Cash and cash equivalents at beginning of the year	**648,871**	11,913
Cash and cash equivalents at end of the year, representing bank balances and cash	**122,689**	648,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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 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.

The Group had net current liabilities of RMB190,676,000 as at 31 December 2008. The directors are of the opinion that, taking into account the presently available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of the financial statements. Hence, the financial statements have been prepared on a going concern basis.

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").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Paper Holdings Limited ("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.

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 year 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 ("IFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

The adoption of these new IFRSs had no material effect on how the result and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
IFRS 8	Operating Segments[2]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendments)	Eligible hedged items[3]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[3]
IFRCI 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

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

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

4 Effective for annual periods ending on or after 30 June 2009

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

6 Effective for annual periods beginning on or after 1 October 2008

7 Effective for transfers on or after 1 July 2009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost except for certain financial instrument which is measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited 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 presented separately from the Group's equity therein. Minority interests in the net assets 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's 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.

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

Acquisition of businesses is 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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.

Acquisition of additional interest in subsidiaries

Discount arising on acquisition of additional interest in subsidiaries represents the excess of the fair value of the net assets attributable to the additional interest in subsidiaries over the cost of the acquisition.

On acquisition of additional interest in subsidiaries, the difference between the fair value of the net assets attributable to the additional interest in subsidiaries and carrying values of the underlying assets and liabilities attributable to the additional interest in subsidiaries is charged directly to capital reserve.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised as income when there is reasonable assurance that the entity will comply with the conditions attaching to them; and the grants will be received. Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciation assets are presented as deferred income and are released to income over the useful lives of the assets.

Retirement benefit costs

Payments to the Group's defined contribution retirement benefit plans, including state-managed retirement schemes are charged as expenses when employees have rendered service entitling them to the contributions.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and derivative financial instruments. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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, loans receivable, 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 loans and receivables below).

Impairment of loans and receivables

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

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 loans and receivables, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables (continued)

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 is reduced by the impairment loss directly for all loans and receivables 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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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. CHANGES IN PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT

In the current year, the directors of the Company have re-considered the significance and recurring nature of sales of electricity and steam and related costs in the consolidated income statement. As a result, the following income statement line items have been reclassified for more relevant presentation of these transactions:

	2007 RMB'000 (originally stated)	Reclassification RMB'000	2007 RMB'000 (restated)
Revenue	1,381,619	30,062	1,411,681
Cost of sales	(1,112,018)	(21,179)	(1,133,197)
Other income	36,256	(30,062)	6,194
Other expenses	(21,179)	21,179	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. 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.

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 2008, the carrying amount of inventories is approximately RMB226,156,000 (2007: RMB177,248,000).

Impairment of receivables

The Group makes allowances for and write-off bad and doubtful debts based on an assessment of the recoverability of the receivables. Receivables were impaired 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 2008, the aggregate carrying amount of trade, bills, loans and other receivables is approximately RMB635,761,000 (2007: RMB506,822,000). Details of movements of allowance for doubtful receivables are disclosed in Note 22.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. REVENUE

The Group is principally engaged in production/generation and sale of paper products, electricity and steam. The Group's revenue represents the amount received and receivable for sale of paper products, electricity and steam during the current year.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the prior year, the primary reportable segment information of the Group is based on geographic location of customers. Information by business segment is not presented in view of the insignificant contribution of generation and sale of electricity and steam business to the Group's result. During the year, the management considered that the risks and returns of the Group is more affected predominantly by the businesses in production and sale of paper products as well as the generation and sale of electricity and steam. As a result, the Group has presented its primary reportable segment information based on business segments for the current year with comparative segment information restated.

Business segments

The Group is currently organised into two operating divisions namely production and sale of paper products, and generation and sale of electricity and steam. These divisions are the basis on which the Group reports its primary segment information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

An analysis of the Group's revenue from external customers and contribution by business segments is as follows:

For the year ended 31 December 2008

	Paper products RMB'000	Electricity and steam RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue				
External sales	1,696,807	67,745	—	1,764,552
Inter-segment sales	—	195,848	(195,848)	—
Total	1,696,807	263,593	(195,848)	1,764,552
Result				
Segment result	91,367	3,476	(673)	94,170
Other income				49,446
Change in fair value of derivative financial instruments				(3,997)
Unallocated corporate expenses				(26,752)
Finance costs				(48,150)
Profit before tax				64,717
Income tax credit				1,471
Profit for the year				66,188

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31 December 2007

	Paper products RMB'000	Electricity and steam RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue				
External sales	1,381,619	30,062	—	1,411,681
Inter-segment sales	—	75,609	(75,609)	—
Total	1,381,619	105,671	(75,609)	1,411,681
Result				
Segment result	170,731	7,561	(652)	177,640
Other income				9,017
Share of result of an associate	—	2,025	—	2,025
Unallocated corporate expenses				(9,772)
Finance costs				(33,348)
Profit before tax				145,562
Income tax expense				(8,292)
Profit for the year				137,270

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

An analysis of the Group's total assets and liabilities by business segments is as follows:

At 31 December 2008

	Paper products RMB'000	Electricity and steam RMB'000	Consolidated RMB'000
Assets			
Segment assets	2,095,011	357,453	2,452,464
Unallocated corporate assets			411,103
Consolidated total assets			2,863,567
Liabilities			
Segment liabilities	554,666	50,532	605,198
Unallocated corporate liabilities			1,022,900
Consolidated total liabilities			1,628,098

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

At 31 December 2007

	Paper products RMB'000	Electricity and steam RMB'000	Consolidated RMB'000
Assets			
Segment assets	1,367,482	327,536	1,695,018
Unallocated corporate assets			697,532
Consolidated total assets			2,392,550
Liabilities			
Segment liabilities	498,523	83,945	582,468
Unallocated corporate liabilities			671,927
Consolidated total liabilities			1,254,395

An analysis of the Group's other information by business segments are as follows:

For the year ended 31 December 2008

	Paper products RMB'000	**Electricity and steam RMB'000**	**Consolidated RMB'000**
Additions to property, plant and equipment	**595,171**	**69,205**	**664,376**
Depreciation and amortisation	**37,279**	**15,280**	**52,559**
Loss (gain) on disposal of property, plant and equipment	**559**	**(39)**	**520**
Allowance for inventories	**4,737**	**—**	**4,737**
Impairment loss recognised on goodwill	**554**	**—**	**554**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31 December 2007

	Paper products RMB'000	Electricity and steam RMB'000	Consolidated RMB'000
Additions to property, plant and equipment	281,339	1,754	283,093
Depreciation and amortisation	29,711	7,412	37,123
Loss on disposal of property, plant and equipment	47	36	83

Geographical segments

The Group's operations 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 revenue based on geographical location of the Group's customers, irrespective of the origin of the goods. As assets, revenue and result contributed by overseas countries are individually below 10% of the segment assets, revenue and results; and external sales to overseas countries is in aggregate less than 75% of total consolidated revenue, no further geographical segments are presented.

	Revenue by geographical market	
	2008 RMB'000	2007 RMB'000
PRC	**1,670,217**	1,217,108
Overseas	**94,335**	194,573
	1,764,552	1,411,681

The Group's segment assets and additions to property, plant and equipment are located in the PRC only.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9. OTHER INCOME

	2008 RMB'000	2007 RMB'000
Exchange gain	**23,345**	4,791
Discount on acquisition of additional interest in a subsidiary	**2,109**	—
Government grants	**1,840**	547
Interest income	**13,878**	2,521
Interest income from loan receivables	**8,744**	—
Transportation service income	**241**	217
Compensation	**2,698**	1,754
Others	**1,666**	571
	54,521	10,401

10. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expenses on:		
Bank and other borrowings wholly repayable within five years	**65,410**	34,457
Bank borrowings not wholly repayable within five years	**740**	1,082
	66,150	35,539
Less: Interest capitalised in construction in progress	**(18,000)**	(2,191)
	48,150	33,348

Borrowing costs capitalised during the year ended 31 December 2008 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8.38% (2007: 7.69%) to expenditure on construction in progress.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11. PROFIT BEFORE TAX

	2008 RMB'000	2007 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**54,836**	31,059
Retirement benefits schemes contributions	**4,413**	1,728
Equity-settled share-based payment	**10,518**	1,601
Total staff costs (including directors emoluments)	**69,767**	34,388
Allowance for inventories provided (reversed)	**4,737**	(863)
Release of prepaid lease payments	**1,865**	1,237
Auditor's remuneration	**1,588**	3,061
Depreciation of property, plant and equipment	**50,694**	35,886
Loss on disposal of property, plant and equipment	**520**	83

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

		Other emoluments				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000	Equity-settled share-based payment RMB'000	Total emoluments RMB'000
2008						
Executive directors:						
Wang Dongxing	120	87	–	–	1,461	1,668
Shi Weixin	50	–	–	–	1,461	1,511
Zhang Zengguo	79	33	4	–	–	116
Wang Yilong	30	–	–	–	–	30
Non-executive directors:						
Xu Fang	50	–	–	–	–	50
Wang Nengguang	50	–	–	–	–	50
Independent non-executive directors:						
Wong Wing Yee	99	–	–	–	–	99
Wang Zefeng	50	–	–	–	–	50
Xu Ye	50	–	–	–	–	50
	578	120	4	–	2,922	3,624

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12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Directors (continued)

		Other emoluments				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000	Equity-settled share-based payment RMB'000	Total emoluments RMB'000
2007						
Executive directors:						
Wang Dongxing	—	75	—	225	222	522
Shi Weixin	—	—	—	—	222	222
Zhang Zengguo	—	45	4	71	—	120
Wang Yilong	—	—	—	—	—	—
Non-executive directors:						
Xu Fang	—	—	—	—	—	—
Wang Nengguang	—	—	—	—	—	—
Independent non-executive directors:						
Wong Wing Yee	—	—	—	—	—	—
Wang Zefeng	—	—	—	—	—	—
Xu Ye	—	—	—	—	—	—
	—	120	4	296	444	864

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12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, included 2 (2007: 2) directors, details of their emoluments are set out above. The emoluments of the remaining 3 (2007: 3) individuals during the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other allowances	**357**	604
Retirement benefits schemes contributions	**—**	4
Performance related incentive payments	**—**	61
Equity-settled share-based payment	**4,090**	267
	4,447	936

The above employees' emoluments were within the following bands:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000	**—**	5
HK$1,000,001 to HK$1,500,000	**3**	—
HK$1,500,001 to HK$2,000,000	**2**	—

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.

Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

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13. INCOME TAX CREDIT (EXPENSE)

	2008	2007
	RMB'000	RMB'000
Current tax:		
PRC	**(4,951)**	(8,720)
Deferred tax (Note 19):		
Current year	**6,422**	547
Attributable to a change in tax rate	**—**	(119)
	6,422	428
	1,471	(8,292)

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New law and the Implementation Regulation, the tax rate has been changed from 33% to 25% for the Company's PRC subsidiaries from 1 January 2008.

In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the New Law and will have an impact on foreign investment enterprises ("FIE"). For enterprises which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of a tax reductions and exemptions, such as the "two-year tax exemption followed by three-year 50% tax reduction", shall continue to enjoy preferential treatment for their initial term as prescribed under the previous tax laws, administrative regulations and related documents after the New Law take effect until the initial term expires. Changle Sunshine and 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), the PRC subsidiaries of the Company, which are levied at 12.5% (2007: Nil) for the year ended 31 December 2008 based on relevant tax circulars.

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For the year ended 31 December 2008

13. INCOME TAX (CREDIT) EXPENSE (continued)

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

	2008 RMB'000	2007 RMB'000
Profit before tax	**64,717**	145,562
Tax at the applicable income tax rate of 25% (2007: 33%)	**16,179**	48,035
Effect of tax incentives (Note (a))	**(13,162)**	—
Tax effect of income not taxable	**(872)**	—
Tax effect of expenses not deductible	**2,304**	273
Effect of tax exemption granted to certain subsidiaries	**(13,198)**	(43,404)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries, arising from 1 January 2008 (Note (b))	**774**	—
Differential tax rate on temporary difference	**6,504**	3,937
Tax effect of share of result of an associate	**–**	(668)
Increase in opening deferred tax assets resulting from a decrease in applicable tax rate	**–**	119
Tax (credit) charge for the year	**(1,471)**	8,292

Notes:

(a) According to regulations issued by the State Administration of Taxation, the Group obtained incentives of income tax deduction for purchase of equipment manufactured domestically with an amount of approximately RMB22,446,000 from local tax authorities, in which RMB13,162,000 was utilized for the year ended 31 December 2008. The remaining unutilized deductible tax amount of approximately RMB9,284,000 was not recognized as deferred tax assets as the management considered that it was uncertain for future deduction.

(b) Under the New Law, deferred tax liability was recognized based on undistributed profit of the PRC subsidiaries for the dividends expect to be declared to the Hong Kong holding company in respect of profits earned from 1 January 2008 and after which will be subject to withholding tax at 5% based on the New Double Taxation Arrangement between Hong Kong and Mainland China. The management intends to declare and recommend dividends which would amount in total to approximately 20% of the net profit of the PRC subsidiaries generated from 1 January 2008 and deferred tax is provided on this basis.

Details of deferred tax for the year are set out in Note 19.

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14. DIVIDEND

Subsequent to the balance sheet date, the dividend of RMB3.2 cents (2007: Nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting to be held on 26 May 2009.

15. EARNINGS PER SHARE

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

	2008 **RMB'000**	2007 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to equity holders of the Company)	**64,356**	133,001

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**405,998,000**	193,603,000

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**405,998,000**	193,603,000
Effect of dilutive potential ordinary shares relating to outstanding share options	**N/A**	330,453
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**N/A**	193,933,453

15. EARNINGS PER SHARE (continued)

In calculating the weighted average number of ordinary shares for the purposes of calculating basic earnings per share for the year ended 31 December 2007, 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 that year.

No diluted earnings per share was presented for the year ended 31 December 2008 as the exercise prices of share options were higher than the average market price for the year.

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For the year ended 31 December 2008

16. 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 2007	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
Additions	4,597	52,202	607,577	664,376
Transfers	221,329	169,075	(390,404)	—
Disposals	—	(3,607)	—	(3,607)
At 31 December 2008	**422,065**	**862,864**	**332,294**	**1,617,223**
DEPRECIATION				
At 1 January 2007	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
Provided for the year	6,632	44,062	—	50,694
Eliminated on disposals	—	(1,106)	—	(1,106)
At 31 December 2008	**19,416**	**95,541**	**—**	**114,957**
CARRYING AMOUNT				
At 31 December 2008	**402,649**	**767,323**	**332,294**	**1,502,266**
At 31 December 2007	183,355	592,609	115,121	891,085

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

16. 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 38.

17. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**90,257**	88,278
Current assets	**1,936**	1,856
	92,193	90,134

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 38.

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18. GOODWILL

	2008 RMB'000	2007 RMB'000
COST		
At beginning of the year	**19,246**	554
Arising from acquisition of a subsidiary	**–**	18,692
At end of the year	**19,246**	19,246
IMPAIRMENT		
At beginning of the year	**–**	–
Impairment loss recognized in the year	**554**	–
At end of the year	**554**	–
CARRYING AMOUNT		
At end of the year	**18,692**	19,246

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to two individual cash generating units (CGUs), including one subsidiary in Paper Products segment ("CGU A") and one subsidiary in electricity and steam segment ("CGU B"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2008 allocated to these units are as follows:

	2008 RMB'000	2007 RMB'000
CGU A	**–**	554
CGU B	**18,692**	18,692
At end of the year	**18,692**	19,246

18. GOODWILL (continued)

The basis of the recoverable amounts of the above CGUs and its major underlying assumptions are summarized below:

CGU A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 17% (2007: 6.84%). CGU A's cash flow beyond the 5-year period is extrapolated using a steady 5% (2007: 5%) growth rate. The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. As a result of the carrying amount exceeds the recoverable amount by approximately RMB554,000, goodwill arising on acquisition of Kunshan Sunshine was identified to be fully impaired.

CGU B

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 13% (2007: 13%). CGU B's cash flow beyond the 5-year period is extrapolated using a steady 5% (2007: 5%) growth rate. The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU B to exceed the aggregate recoverable amount of CGU B.

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19. 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 inventories RMB'000	Fair value adjustment on property, plant and equipment RMB'000	Change in fair value of derivative financial instrument RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2007	–	492	–	–	–	–	–	–	492
Change in tax rate (Note 13)	–	(119)	–	–	–	–	–	–	(119)
Acquisition of a subsidiary	–	–	–	235	(318)	(6,316)	–	–	(6,399)
Credited (charged) to consolidated income statement for the year	163	(226)	230	(47)	318	109	–	–	547
At 31 December 2007	163	147	230	188	–	(6,207)	–	–	(5,479)
Credited (charged) to consolidated income statement for the year	5	1,184	4,983	(188)	–	213	999	(774)	6,422
At 31 December 2008	**168**	**1,331**	**5,213**	**–**	**–**	**(5,994)**	**999**	**(774)**	**943**

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

	2008 RMB'000	2007 RMB'000
Deferred tax assets	**8,672**	1,087
Deferred tax liabilities	**(7,729)**	(6,566)
	943	(5,479)

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20. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**152,613**	152,086
Finished goods	**73,543**	25,162
	226,156	177,248

Details of inventories pledged are set out in Note 38.

21. LOANS RECEIVABLE

	2008 RMB'000	2007 RMB'000
Loans receivable	**40,811**	—

The Group granted short-term unsecured entrusted loans to certain third party with effective interest rate (which is equal to contractual interest rate) of 10% per annum. The amount was subsequently received on maturity date, 14 March 2009.

22. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2008 RMB'000	2007 RMB'000
Trade receivables due from:		
— Third parties	**168,295**	105,963
— Related parties (Note 43(c))	**3,147**	3,805
	171,442	109,768

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22. TRADE RECEIVABLES (continued)

Included in the balance of trade receivables above, there was approximately RMB97,700,000 at 31 December 2008 (2007: RMB38,500,000) pledged to banks to secure banking facilities granted to the Group (see Note 38).

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.

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

	2008	2007
	RMB'000	RMB'000
0–30 days	**125,576**	87,215
31–90 days	**34,532**	18,977
91–365 days	**10,948**	3,389
Over 1 year	**386**	187
	171,442	109,768

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defines credit limits by customer.

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB39,097,000 (2007: RMB21,350,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers and the Group considers that these balances are not impaired. The Group does not hold any collateral over these balances.

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22. TRADE RECEIVABLES (continued)

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

	2008	2007
	RMB'000	RMB'000
31–90 days	**27,763**	17,774
91–365 days	**10,948**	3,389
Over 1 year	**386**	187
	39,097	21,350

The directors of the Company are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired at each balance sheet date is of good quality.

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

	RMB'000
At 1 January 2007	905
Written off during the year	(20)
At 31 December 2007	885
Written off during the year	—
At 31 December 2008	885

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. The directors considered that the Group has no significant concentration of credit risk of trade receivables, with exposure spread over a number of customers.

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23. BILLS RECEIVABLE

	2008	2007
	RMB'000	RMB'000
Bills receivable	**412,252**	382,398

During the year, the Group has discounted bills receivable of RMB43,804,000 (2007: RMB24,197,000) 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 discounted bill financing (see Notes 30 and 38).

Bills receivable of approximately RMB254,978,000 (2007: RMB307,962,000) was endorsed with recourse to third parties at 31 December 2008 and corresponding trade payables of RMB254,978,000 (2007: RMB307,962,000) were included in the consolidated financial statements accordingly.

The aged analysis of bills receivable at the balance sheet date is as follows:

	2008	2007
	RMB'000	RMB'000
0–90 days	**222,573**	203,204
91–180 days	**189,679**	179,194
	412,252	382,398

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24. PREPAYMENTS AND OTHER RECEIVABLES

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

	2008 RMB'000	2007 RMB'000
Prepayments	**784**	1,504
Other receivables	**11,256**	14,656
Prepayments to suppliers	**20,730**	15,828
	32,770	31,988

The directors considered that the Group has no significant concentration of credit risk of other receivables, with exposure spread over a number of counterparties.

25. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank deposits represent the Group's short-term bank deposits pledged to banks to secure certain bills facilities and short-term bank borrowings granted to the Group.

The restricted bank deposits carry interest at market rates which range from 0.36% to 4.14% (2007: 0.72%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

Bank balances carry market interest rate of 0.36% per annum as at 31 December 2008 (2007: 0.72% per annum).

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26. TRADE PAYABLES

An analysis of trade payables is as follows:

	2008	2007
	RMB'000	RMB'000
Trade payables to third parties	**375,217**	387,997

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:

	2008	2007
	RMB'000	RMB'000
0–90 days	**194,538**	217,154
91–365 days	**173,380**	166,795
Over 1 year	**7,299**	4,048
	375,217	387,997

27. OTHER PAYABLES

An analysis of other payables is as follows:

	2008	2007
	RMB'000	RMB'000
Other payables and accruals	**36,023**	29,799
Advance from customers	**28,788**	35,653
	64,811	65,452

28. DEFERRED INCOME

The deferred income represents the connection fee income not yet recognised in relation to steam transmission services and the value-added tax refund obtained for the purchase of domestically manufactured equipment.

	Connection fee RMB'000	Value-added tax refund RMB'000	Total RMB'000
At 1 January 2007	—	—	—
Additions	1,040	—	1,040
Release to income	(104)	—	(104)
At 31 December 2007	936	—	936
Additions	1,743	19,555	21,298
Release to income	(279)	(1,086)	(1,365)
At 31 December 2008	**2,400**	**18,469**	**20,869**

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

	2008 RMB'000	2007 RMB'000
Current portion	**1,365**	104
Non-current portion	**19,504**	832
	20,869	936

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29. DERIVATIVE FINANCIAL INSTRUMENTS

	2008	2007
	RMB'000	RMB'000
Assets		
Foreign currency forward contracts	**2,434**	—
Liabilities		
Foreign currency forward contracts	**6,431**	—

During the year, the Group entered into arrangements with various commercial banks in the PRC that the Group borrowed one year US dollar/EURO loans from these banks for settlement of its US dollar/EURO payable to suppliers denominated in US dollar/EURO. At the same time, the Group placed one year fixed deposits to the banks as security against the US dollar/EURO loans, and entered into forward contracts with the banks to purchase US dollars/EURO (amounted to the US dollar/EURO loans plus interests thereon) by Renminbi at predetermined forward rates.

At 31 December 2008, the US dollar loans of RMB55,910,000, the EURO loans of RMB91,740,000 and fixed deposits denominated in Renminbi of RMB160,691,000 are included in bank borrowings and restricted bank deposits as disclosed in notes 31 and 25 respectively.

The related interest income on the fixed deposits of RMB4,659,000, exchange gain on US dollar loans of RMB2,204,000 and EURO loans of RMB10,837,000 are included in consolidated income statement, while the interest expenses on US dollar loans of RMB3,236,000 and EURO loans of RMB4,444,000 are included in finance cost as disclosed in note 10.

Major terms of foreign currency forward contracts as at 31 December 2008 are as follows:

Aggregate principal amount	**Maturity**	**Forward exchange rate**
US$8,764,254	From January 2009 to May 2009	Buy US$/sell RMB at 6.4544 to 6.8868
EURO10,302,000	June 2009	Buy EURO/sell RMB at 10.2675

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2008, the fair value of the Company's foreign currency forward contracts is estimated to be a financial asset of RMB2,434,000 and a financial liability of RMB6,431,000 separately. The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which was provided by the counterparty financial institutions at the balance sheet date. The loss on change in fair value of the foreign currency forward contracts amounting to RMB3,997,000 has been recognised in the consolidated income statement.

The US dollar/EURO loans are of fixed interest rates ranging from 4.72% to 12.04% per annum as at 31 December 2008.

30. DISCOUNTED BILL FINANCING

	2008	2007
	RMB'000	RMB'000
Discounted bill financing	**43,804**	24,197

The discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse.

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31. BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Secured bank borrowings	**618,099**	419,309
Unsecured bank borrowings	**315,400**	197,516
	933,499	616,825
Balance of unsecured bank borrowings which are guaranteed by third parties (Note 41)	**76,600**	39,400
The borrowings are repayable as follows:		
Within one year	**784,432**	483,856
In the second year	**27,304**	27,557
In the third to fifth year inclusive	**111,511**	72,541
Over five years	**10,252**	32,871
	933,499	616,825
Less: Amount due for settlement within one year and shown under current liabilities	**(784,432)**	(483,856)
Amount due after one year	**149,067**	132,969
Total borrowings		
— At fixed rates	**594,080**	271,635
— At floating rates	**339,419**	345,190
	933,499	616,825
Analysis of borrowings by currency:		
— Denominated in RMB	**617,649**	460,435
— Denominated in United States dollars	**224,110**	156,390
— Denominated in EURO	**91,740**	—
	933,499	616,825

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31. BANK BORROWINGS (continued)

Fixed-rate borrowings are charged at the rates ranging from 4.72% to 12.17% per annum as at 31 December 2008 (2007: 5.02% to 8.42% per annum).

Interest 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 1.00% to 3.1% over LIBOR (2007: 1.03% to 2.2% over LIBOR).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2008 was 8.00% per annum (2007: 6.93% per annum).

Details of pledge of assets for the Group's secured bank borrowings and guarantees from other parties are set out in Notes 38 and 41, respectively.

32. OTHER BORROWINGS

	2008 **RMB'000**	2007 RMB'000
Borrowings from Weifang City Investment Co., Ltd. （濰坊市投資有限公司）(“Weifang Investment”)	**17,442**	17,562

The other borrowings is unsecured and the interest is charged at prevailing borrowing rate announced by the People's Bank of China. On 9 July 2007, the repayment due date of the borrowing from Weifang Investment was extended and will be due for repayment in 3 years after 9 July 2007.

The effective weighted average annual rate for the year ended 31 December 2008 was 6.83% per annum (2007: 5.63% per annum).

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33. SHARE CAPITAL

	Notes	Number of shares	Share capital
			HK$'000
Ordinary shares of HK$0.10 each			
Authorised:			
Upon incorporation on 22 August 2007	(a)	3,800,000	380
Increase on 19 November 2007	(d)(i)	996,200,000	99,620
At 31 December 2007 and 2008		**1,000,000,000**	**100,000**

	Notes	Number of shares	Share capital	
			HK$'000	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
Exercise of over-allotment option	(f)	7,500,000	750	699
Shares repurchased and cancelled	(g)	(6,456,000)	(646)	(610)
At 31 December 2008		**401,044,000**	**40,104**	**37,872**

Notes to the Consolidated Financial Statements

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33. SHARE CAPITAL (continued)

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 to rationalize the structure of the Group in preparation for the listing of the Company shares on the Stock Exchange.

(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.

(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.

(f) On 3 January 2008, the Company issued and allotted 7,500,000 new ordinary shares of HK$0.10 each at HK$6.00 each upon the partial exercise of the over-allotment option pursuant to the Company's prospectus for a total consideration of approximately HK$45,000,000 (equivalent to approximately RMB41,918,000).

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33. SHARE CAPITAL (continued)

Notes: (continued)

(g) The Company repurchased its 6,456,000 ordinary shares of HK$0.10 each at an aggregate consideration of HK$13,124,000 (equivalent to approximately RMB11,543,000) during the year ended 31 December 2008 and all of these shares were then cancelled. The nominal value of the cancelled shares was credited to the capital redemption reserve. The premium paid on the repurchase shares was charged against the retained earnings.

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$
August 2008	139,000	2.69	2.39	349,170
September 2008	850,000	2.43	2.04	1,977,795
October 2008	5,467,000	2.30	1.24	10,797,090
	6,456,000			13,124,055

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

34. 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 acquisition of subsidiaries 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 companies in the Group that were established and operated in PRC (the "PRC Companies") may be applied for conversion into capital.

34. RESERVES (continued)

Assets revaluation reserve

Assets revaluation reserve arises on the fair value adjustment in respect of the interests previously held by the Group, arising on acquisition of 昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd) ("Shengshi Thermoelectricity") (note 42).

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 accounting rules and regulations of PRC (the "PRC GAAP") to the statutory surplus reserve. 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. Allocation to the discretionary surplus reserve shall be approved by the shareholders in general meeting.

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.

Notes to the Consolidated Financial Statements

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35. 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

35. 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 2008 is as follows:

		Number of options				
	Exercise price HK$	Outstanding at 31.12.2007	Exercised during the year ended 31.12.2008	Forfeited during the year ended 31.12.2008	Expired during the year ended 31.12.2008	Outstanding at 31.12.2008
Directors	5.40	4,000,000	–	–	(800,000)	3,200,000
Senior management	5.40	7,200,000	–	–	(1,440,000)	5,760,000
Other employees	5.40	3,200,000	–	–	(640,000)	2,560,000
		14,400,000	–	–	(2,880,000)	11,520,000
Exercisable at the end of the year						2,880,000

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

35. SHARE-BASED PAYMENT TRANSACTION (continued)

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

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 years to 4.8 years
Risk-free rate	1.88%–3.09%
Expected dividend yield	1%

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 RMB10,518,000 for the year ended 31 December 2008 (2007: RMB1,601,000) 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 granted under the Share Option Scheme during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

36. 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 31, other borrowings disclosed in Note 32 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. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Loans and receivables	**991,640**	1,196,418
Derivative financial instruments	**2,434**	—
Financial liabilities		
Liabilities at amortised cost	**1,526,822**	1,183,809
Derivative financial instruments	**6,431**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(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, Hong Kong Dollars and EURO, which expose the Group to foreign currency risk. During the year, the Group has entered into foreign currency forward contracts to reduce its foreign exchange exposure on foreign currency denominated obligations.

37. 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, excluding foreign currency forward contracts and bank borrowings denominated in US$/EURO as disclosed in note 29, at the balance sheet date are as follow:

	2008 RMB'000	2007 RMB'000
Assets		
US Dollars		
Bank balances and cash	**3,241**	245,525
Trade receivables	**518**	7,177
Hong Kong Dollars		
Bank balances and cash	**6,983**	297,509
Trade receivables	**—**	2,030
Other receivables	**—**	6,036
EURO		
Bank balances and cash	**4,119**	—
Trade receivables	**1**	—

	2008 RMB'000	2007 RMB'000
Liabilities		
US Dollars		
Trade payables	**7,022**	65,602
Advance from customers	**1,353**	—
Bank borrowings	**168,200**	156,390
EURO		
Trade payables	**666**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

As disclosed in note 29, the principal amounts and maturity terms of the foreign currency loans and forward contracts are similar, the net exchange gain or loss arising from these instruments is not significant. Accordingly, management decided to exclude in its consideration of the currency risk analysis.

Sensitivity analysis

The Group is mainly exposed to the fluctuation in US Dollars, Hong Kong Dollars, EURO and 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 excluding certain foreign currency loans and the relevant foreign exchange forward contracts as disclosed above 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

	Impact of US Dollars			Impact of Hong Kong Dollars			Impact of EURO		
	2008	2007		**2008**	2007		**2008**	2007	
	RMB'000	RMB'000		**RMB'000**	RMB'000		**RMB'000**	RMB'000	
Increase (decrease) in profit for the year	**8,641**	(1,536)	(a)	**(349)**	(15,279)	(b)	**(173)**	–	(c)

(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.

(c) This is mainly attributable to the exposure outstanding on bank balances and trade payables denominated in EURO not subject to cash flows hedged at year end.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(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 31 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.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see Notes 31 and 32 for details of these borrowings), restricted bank deposits and bank balances and cash (see Note 25).

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 50 basis points (2007: 100 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk management (continued)

Sensitivity analysis (continued)

The management adjusted the sensitivity rate from 100 basis points to 50 basis points for assessing interest rate risk as interest rates are expected to be less volatile relative to the relevant rates as at 31 December 2008.

At the balance sheet date, if interest rates had been increased (decreased) by 50 basis points (2007: 100 basis points) and all other variables were held constant, the Group's profit would increase (decrease) by approximately RMB(5,000) for the year ended 31 December 2008 (2007: RMB3,268,000).

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, loans receivable, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

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

The Group has concentration of credit risk on total loans receivables as the loans receivables is individually material.

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 has net current liabilities of approximately RMB190,676,000 as at 31 December 2008. The financial statement has been prepared on a going concern basis because the directors of the Company believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flow from operations.

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.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilized short-term bank loan facilities of approximately RMB791,272,000 (2007: RMB524,193,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. 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 RMB'000	6 months or less RMB'000	6–12 months RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2008									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.56	–	407,388	200,572	–	–	–	607,960	594,080
Variable-rate bank borrowings	6.46	–	80,401	129,597	34,353	122,958	10,569	377,878	339,419
Other borrowings	6.83	–	588	588	18,079	–	–	19,255	17,442
Trade payables	–	180,679	194,538	–	–	–	–	375,217	375,217
Other payables	–	1,753	–	–	–	–	–	1,753	1,753
Payable for construction work	–	42,662	89,262	16,307	6,876	–	–	155,107	155,107
Discounted bill financing	–	–	43,804	–	–	–	–	43,804	43,804
		225,094	815,981	347,064	59,308	122,958	10,569	1,580,974	1,526,822
Derivatives settled net									
Foreign exchange forward contracts		–	6,431	–	–	–	–	6,431	6,431
At 31 December 2007									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.68	–	80,005	204,915	–	–	–	284,920	271,635
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	–	8,061	–	–	–	–	–	8,061	8,061
Payable for construction work	–	79,333	6,831	43,003	–	–	–	129,167	129,167
Discounted bill financing	–	–	24,197	–	–	–	–	24,197	24,197
		258,237	449,927	358,900	38,283	106,476	35,621	1,247,444	1,183,809

Notes: The contractual payments in respect of variable-rate bank borrowings and other borrowings are calculated based on the outstanding market rates as at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

37. FINANCIAL INSTRUMENTS (continued)

(e) Fair value

The fair value of the Group's financial assets and financial liabilities (excluding derivative instruments as disclosed in note 29) 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.

38. 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:

	2008 **RMB'000**	2007 RMB'000
Buildings	**182,540**	155,152
Plant, machinery and equipment	**443,111**	403,273
Prepaid lease payments	**37,089**	58,780
Inventories	**30,649**	44,018
Trade receivables	**97,700**	38,500
Bills receivable	**43,804**	24,197
Restricted bank deposits	**232,190**	40,725
	1,067,083	764,645

In addition, guarantees of approximately RMB76,600,000 (2007: RMB39,400,000) were provided by third parties in respect of banking facilities granted to the Group as disclosed in Note 41.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

39. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**671,969**	89,944

40. OPERATING LEASES

The Group as lessee

	2008	2007
	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the year		
Premises	**391**	265

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

	2008	2007
	RMB'000	RMB'000
Within one year	**210**	240

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

41. GUARANTEES

	2008 RMB'000	2007 RMB'000
Guarantees received from third 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.)	**13,600**	24,400
壽光市聖龍鋼結構工程有限公司 (Shenglong Steel Structures Co., Ltd.)	**13,000**	—
山東魯麗集團有限公司 (Lu Li Group Co., Ltd.)	**50,000**	—
	76,600	39,400

42. ACQUISITION OF SUBSIDIARIES

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)

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42. ACQUISITION OF SUBSIDIARIES (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.

43. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
China Sunrise	Shareholder of the Company
Shengshi Thermoelectricity	Associate (Note i)
濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.) ("Shengtai Medicine")	Minority shareholder of Shengshi Thermoelectricity
Wang Sibo	Minority shareholder of Weifang Shenyi (Note ii)
Xia Lianbao	Minority shareholder of Weifang Shenyi (Note ii)

Notes:

(i) Shengshi Thermoelectricity became a subsidiary of the Company since 29 June 2007.

(ii) The equity interests in Weifang Shenyi held by the minority shareholders were transferred to Changle Sunshine on 30 April 2008. Thus, these minority shareholders were not related parties of the Group since then.

(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:

	2008 RMB'000	2007 RMB'000
Sales of goods		
— Shengtai Medicine	**65,097**	28,789
Purchase of raw materials		
— Shengshi Thermoelectricity	**—**	67,078

43. RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	2008 RMB'000	2007 RMB'000
Trade receivable from a minority shareholder of a subsidiary		
— Shengtai Medicine	**3,147**	3,805
Amount due to a shareholder/immediate holding company		
— China Sunrise (Note)	**—**	217

Note: 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.

(d) Investments acquired during the year

On 30 April 2008, the Group acquired additional equity interests of 48.76% in Weifang Shenyi from Wang Sibo and Xia Lianbao at a consideration of RMB5,606,000 and debit reserve of RMB178,000 was recognised in capital reserve.

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43. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel

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

	2008	2007
	RMB'000	RMB'000
Short term employee benefit	**2,338**	1,632
Retirement benefit scheme contributions	**26**	8
Equity-settled share-based payment	**10,518**	1,601
	12,882	3,241

44. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 18% to 20% of the employee's basic salaries during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

45. 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 2008	2007	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%**	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%**	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
昌樂新邁紙業有限公司 (Changle Numat Paper Industry Co., Ltd.)	Private limited company	PRC	RMB80,000,000	**100.00%**	–	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
哈爾濱昌東廢紙收購有限公司 (Harbin Changdong Waste Paper Recovery Co., Ltd.)	Private limited company	PRC	RMB200,000	**100.00%**	–	Waste paper trading
青島東林再生紙有限公司 (Qingdao Donglin Recycle Paper Co., Ltd.)	Private limited company	PRC	RMB3,000,000	**100.00%**	–	Waste paper trading
青島東森再生紙有限公司 (Qingdao Dongsen Recycle Paper Co., Ltd.)	Private limited company	PRC	RMB1,000,000	**100.00%**	–	Waste paper trading
濰坊申易物流有限公司 (Weifang Shenyi Logistic Co., Ltd.)	Private limited company	PRC	RMB8,820,000	**100.00%**	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%**	80.00%	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 five years ended 31 December:

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,764,552**	1,411,681	613,367	447,277	244,686
Profit before taxation	**64,717**	145,562	56,092	42,559	6,973
Taxation	**1,471**	(8,292)	(5,932)	(914)	(2,493)
Minority interests	**(1,832)**	4,269	(220)	806	(58)
Profit attributable to shareholders	**64,356**	133,001	49,940	42,451	4,422
Assets					
Non-current assets	**1,619,887**	999,696	505,186	248,625	173,815
Current assets	**1,243,680**	1,392,854	436,924	312,601	219,123
Total assets	**2,863,567**	2,392,550	942,110	561,226	392,938
Liabilities					
Non-current liabilities	**193,742**	157,929	—	(56,900)	(5,100)
Current liabilities	**1,434,356**	1,096,466	(761,839)	(378,957)	(337,029)
Total liabilities	**1,628,098**	1,254,395	(761,839)	(435,857)	(342,129)
Equity and reserves					
Total equity	**1,235,469**	1,138,155	180,271	125,369	50,809
Minority interests	**(31,205)**	(37,535)	(8,638)	(12,109)	—
Capital and reserves attributable to the Company's equity holders	**1,204,264**	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 a group 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.