China Sunshine Paper Holdings Company Limited
中國陽光紙業控股有限公司*

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

Interim Report
2009

*For identification purposes only

Table of Content

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 Junfeng
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*
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

Room 2202, 22/F.,
Causeway Bay Plaza I
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Causeway Bay
Hong Kong

Registered Office

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

Principal Share Registrar and Transfer Office in Cayman Islands

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

Hong Kong 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

Stock Code

2002

Website

www.sunshinepaper.com.cn

Business Review

Operation

The global financial tsunami created a challenging operating environment for the Company in early 2009, forcing a contraction of the market that led to a decrease in the average selling prices and the gross profit margins of the Group's products. As a result, the Group recorded losses in the first quarter of 2009. Since April 2009, the market environment has been showing signs of recovery. Gross profit margins across the Group's products have recorded steady improvements, production lines have resumed to normal operations, and the Group began to record profits in the second quarter of 2009. However, the performance downturn in the first quarter of 2009 offset most of the achievements in the second quarter of 2009. Hence, for the six months ended 30 June 2009 ("1H 2009"), the Group reported a slight decrease in turnover of 8.7% to RMB769.4 million after a consecutive 5-year growth since 2004. Net profit attributable to the shareholders was RMB10.1 million for 1H 2009.

The sixth production line ("PL 6") of 200,000 tonnes core board has been fully operational in 1H 2009 after its trial operation since the fourth quarter of 2008. Prior to the completion of construction of the seventh production line ("PL 7") of 500,000 tonnes white top linerboard and light-coated linerboard, which targets the packaging paper products market and which is scheduled to compete by the fourth quarter of 2010, the Group will further enhance its production capacity by conducting research and development, and upgrading existing machines.

The below table sets forth information relating to the Group's production lines:

Production line	Location	Paper product	Estimated annual maximum production capacity (tonnes)	Approximate output for 1H 2009 (tonnes)
PL 1	Weifang	White top linerboard	110,000	47,100
PL 2	Weifang	White top linerboard and light-coated linerboard	220,000	123,800
PL 3, PL 4, PL 6	Weifang	Core board	260,000	96,800
PL 5	Kunshan	Specialized paper products	10,000	4,200
		Sub-total for existing production lines	600,000	271,900
PL 7 *	Weifang	White top linerboard and light-coated linerboard	500,000	Not applicable

* PL 7 is estimated to commence operation by the fourth quarter of 2010.

Business Review

Domestic recovered paper was the largest raw material component in the manufacture of the paper products of the Group. During 1H 2009, the Group strategically consolidated the existing recovered paper collection points and established new recovered paper collection points in China, aiming at securing a stable source of domestic recovered paper in a more cost efficient way. The Group will continuously expand its recovered paper collection points in various second-tier cities in Northern China. As at the date of this report, the Group has 10 recovered paper collection points spanning across Northern China and Northeast China.

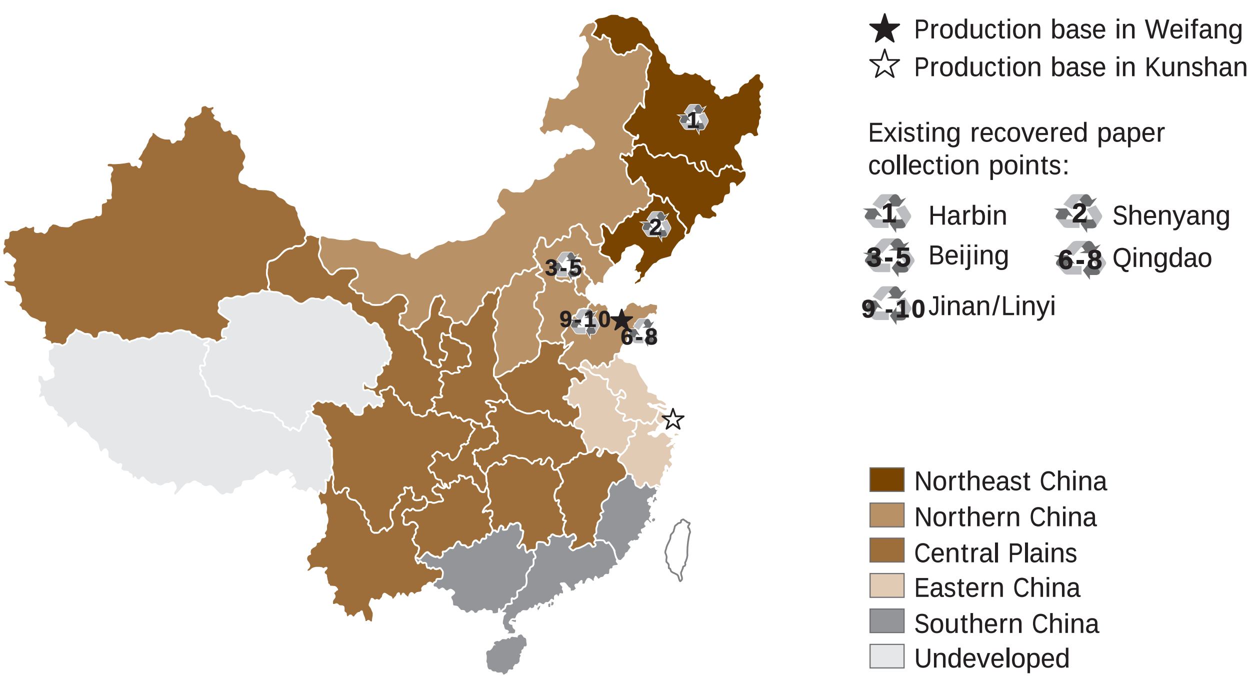
Outlook

The management remains optimistic about the performance of the Group in the second half of the year, taking into consideration of the recent signals: the stabilized average selling prices of the Group's products, the continuous improvement in the gross profit margins of the Group's products and the satisfactory utilization rate of the Group's production lines.

The unprecedented challenges arising from the global financial tsunami have not affected the long-term development plan of the Group. We strive to deliver quality paper products to our customers, while implementing effective cost controls and maximising operational efficiency to enhance profit margin. Meanwhile, with a cautious approach, we have strategically rescheduled our production expansion plan aiming at taking full advantage of the global economic revives in future.

The Group is at a prime position to enjoy the harvests of the economic revival as the sales of the Group were primarily made to China, which recovers at a faster pace than other countries, and its economic prospects remains positive. We believe the competitive edge of the Company will make us to be one of the leading producers in the paper industry in China.

The following map shows the geographical location of the Group's production bases and recovered paper collection points in China as at the date of this report:



Management Discussion and Analysis

Sales of paper products

A decrease in customers' orders of the Group's paper products resulting from the decline in export and soft domestic consumption in China in the first quarter of 2009, together with a decrease in the average selling prices (the "ASP") of the Group's paper products, led to a decrease of 10.0% in sales of paper products for 1H 2009, from RMB808.4 million for the six months ended 30 June 2008 ("1H 2008") to RMB727.3 million for 1H 2009.

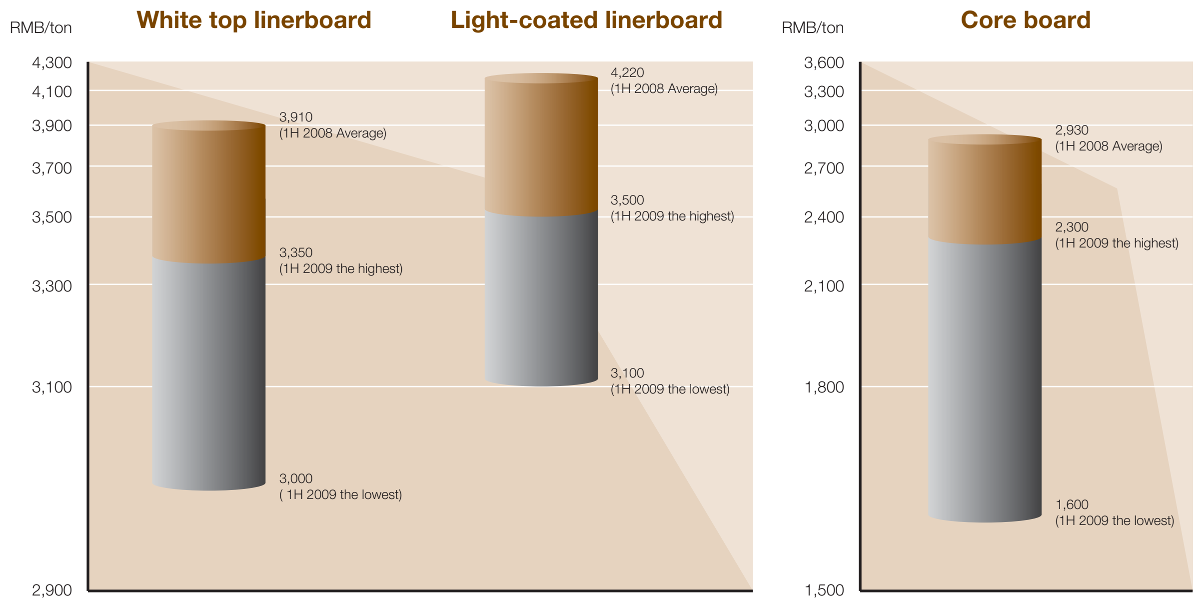
However, driven by its superior competitive edge, sales of light-coated linerboard recorded an increase amid the grim business environment, demonstrating its high recognition in the market. Sales of light-coated linerboard was able to record an increase of 12.7%, from RMB147.4 million for 1H 2008 to RMB166.1 million for 1H 2009.

Sales of core board also recorded an increase of 97.7% to RMB168.0 million for 1H 2009. The increase primarily resulted from the full operation of PL 6 in 1H 2009.

Sales of white-top linerboard recorded a decrease of 30.9% to RMB351.0 million for 1H 2009. The decrease was mainly attributable to the soft domestic consumption in China in the first quarter of 2009.

During 1H 2009, the ASP of the white-top linerboard, light-coated linerboard and core board ranged from approximately RMB3,000 to RMB3,350 per ton, RMB3,100 to RMB3,500 per ton, and RMB1,600 to RMB2,300 per ton, respectively. While the market contraction put a heavy pressure on the ASP of the Group's products since the fourth quarter of last year, a gradual double digit rebound from the bottom of the ASP was noted in the second quarter of 2009. Nevertheless, despite such rebound in ASP in the second quarter of 2009, the ASP of the Group's products for 1H 2009 still recorded a double digit decline as compared to that for 1H 2008. The decline in ASP reflected the weak demand of paper products in a gloomy economic environment and the dramatical drop in the raw materials cost in 1H 2009.

The below charts set forth information relating to the ASP of the Group's paper products:



Management Discussion and Analysis

Sales of electricity and steam

The Group has a 80% stake in a subsidiary, which has several power and steam generation plants to supply a significant portion of its electricity and steam consumption. Sales of electricity and steam mainly represented the electricity and steam sold to the minority shareholder of this subsidiary.

Sale analysis by two business segments, namely paper products and electricity and steam, is as follows:

	1H 2009			1H 2008		
	RMB'000	%	Gross profit margin (%)	RMB'000	%	Gross profit margin (%)
White top linerboard	**350,963**	**45.6**	**13.0**	507,947	60.3	16.0
Light-coated linerboard	**166,115**	**21.6**	**16.1**	147,357	17.5	20.3
Core board	**168,019**	**21.8**	**11.2**	84,997	10.1	22.7
Specialized paper products	**42,218**	**5.5**	**7.2**	68,075	8.1	5.5
Subtotal for paper products	**727,315**	**94.5**	**12.9**	808,376	96.0	16.6
Sales of electricity and steam	**42,111**	**5.5**	**14.7**	34,235	4.0	12.9
Total	**769,426**	**100.0**	**13.0**	842,611	100.0	16.4

Cost of sales

Raw materials cost was the largest component of the Group's cost of sales. Raw materials cost for 1H 2009 was RMB490.4 million, representing 73.3% of the cost of sales and a 13.6% decrease as compared to RMB567.9 million for 1H 2008. Around 30.0% of the domestic recovered paper was sourced from the Group's domestic recovered paper collection points. Overseas recovered paper and kraft pulp were primarily sourced from the United States, Canada and European countries.

Raw materials cost remained at the low range in its cycle during 1H 2009. The average purchase price of the major raw materials for 1H 2009 was approximately 40.0% lower than that for 1H 2008. The management is of the view that raw materials cost would only show a mild rebound in the second half of 2009 given the current difficult economic environment in the United States and European countries.

Overhead costs mainly comprised of depreciation and energy costs. The increase in overhead costs primarily resulted from the additional depreciation and energy costs for PL 6, which was still under construction in 1H 2008.

Management Discussion and Analysis

The following table sets out the Group's breakdown of the cost of sales for 1H 2009 and 1H 2008:

	1H 2009		1H 2008	
	RMB'000	**%**	**RMB'000**	**%**
Raw materials cost				
Domestic recovered paper	**175,906**	**26.3**	218,622	31.1
Overseas recovered paper	**111,140**	**16.6**	104,956	14.9
Kraft pulp	**81,484**	**12.2**	124,894	17.7
Chemicals and others	**121,849**	**18.2**	119,397	17.0
	490,379	**73.3**	567,869	80.7
Labour costs	**14,013**	**2.1**	18,015	2.5
Overhead costs	**164,704**	**24.6**	118,157	16.8
Total	**669,096**	**100.0**	704,041	100.0

Gross profit and gross profit margin

As a result of the foregoing, the gross profit decreased by RMB38.2 million to RMB100.3 million for 1H 2009. The gross profit margin of the paper products, and the electricity and steam were 12.9% and 14.7%, respectively, for 1H 2009, as compared to 16.6% and 12.9%, respectively for 1H 2008.

Other profit and loss items

Other income mainly comprised of interest income of RMB7.1 million and government grants of RMB22.7 million in relation to the valued-added tax refund for the purchase of domestic recovered paper.

Selling and distribution expenses primarily consisted of transportation cost, advertising and staff costs. Selling and distribution expenses recorded an increase of 61.0% from 33.6 million for 1H 2008 to 54.1 million for 1H 2009, which was driven by the increase in the sale volume of paper products and the increase in the price of gasoline.

As a result of the Group's tightened cost control and a write back of share option expenses of RMB5.5 million, administrative expenses fell by 12.0%, from RMB37.4 million for 1H 2008 to RMB32.9 million for 1H 2009.

Finance costs were RMB26.8 million and RMB13.8 million, respectively, for 1H 2009 and 1H 2008. The increase in finance cost primarily resulted from the increase in bank borrowings to finance the construction of PL7.

Management Discussion and Analysis

Income tax expenses

The income tax expenses mainly reflected the income tax expenses of a 80%-owned subsidiary, which operated power and steam generation plants. Changle Century Sunshine Paper Industry Co., Ltd, a dominant subsidiary whose principal business activities were manufacturing and trading of paper products, continues to enjoy preferential tax reductions and exemptions of "two-year tax exemption followed by three-year 50% tax reduction" for the calendar year of 2009.

Net profit attributable to the equity holders of the Company

As a result of the factors discussed above, the net profit attributable to the shareholders of the Company for 1H 2009 decreased by RMB62.3 million or 86.0% to RMB10.1 million as compared to RMB72.4 million for 1H 2008.

Liquidity and Financial Resources

To withstand increasing credit risk inherent in the global economic downturn, the Group has taken several measures to improve its operating cash flow and to strengthen its liquidity position, such measures include maintaining adequate level of inventories, strictly executing the credit policy of accounts receivable, adjusting the mix of short term and long-term bank borrowings, and negotiating long-term syndicated loans for capital expenditures.

The Group generally finances its operation with internally generated cash flow and credit facilities provided by its principal bankers. As at 30 June 2009, the Group had bank balances and cash of RMB118.1 million, and restricted bank deposits of RMB230.6 million. The total of bank borrowings and other borrowings of the Group, which were mainly secured by guarantees and assets of the Group, was RMB876.5 million. The Group's net borrowings (total borrowings net of bank balances and cash, and restricted bank deposits) over total equity was 42.7% as at 30 June 2009, which was lower than 48.2% as at 31 December 2008.

The inventories increased from RMB226.2 million as at 31 December 2008 to RMB308.0 million as at 30 June 2009. Inventories mainly comprised raw materials of RMB202.6 million (31 December 2008: RMB152.6 million) and finished goods of RMB105.4 million (31 December 2008: RMB73.6 million). The increase in inventories was mainly due to the Group reserved more low-priced raw materials for the production.

As at 30 June 2009, the Group had net current liabilities of RMB214.8 million, representing an increase of RMB24.1 million as compared to RMB190.7 million as at 31 December 2008. The slight increase in net current liabilities mainly resulted from the increase in trade payables for the full operation of PL6 during 1H 2009. Notwithstanding the increase in net current liabilities, the short term bank borrowings has decreased as the Group restructured certain short term loans to long term loans, aiming at matching the payment schedule of the construction work payable of PL7.

Management Discussion and Analysis

The Group possesses sufficient financial resources to meet its capital expenditure, debt repayment and working capital requirements. Besides the bank balances and cash of RMB118.1 million, restricted bank deposits of RMB230.6 million and other current assets of RMB1,014.4 million, the Group had over RMB1,000 million of unutilized banking facilities as at 30 June 2009.

The Group's transaction and monetary assets are mainly dominated in Renminbi. Most of the Group's monetary liabilities are also dominated in Renminbi, with the exception of some foreign currency bank borrowings amounting to RMB203.8 million as at 30 June 2009. To hedge foreign currency exposure, the Group entered into certain foreign currency forward contracts with various commercial banks in the PRC during 1H 2009. The Group has never entered into any derivates agreement for speculative purposes nor experienced any material loss arising from the fluctuation in the fair value of the foreign currency forward contracts and foreign currency exchange rate.

Capital expenditure

During 1H 2009, the Group spent approximately RMB13.2 million to enhance the productivity of existing plant and equipment. Meanwhile, approximately RMB102.2 million has been incurred for the construction of PL7.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB731.8 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 30 June 2009. The Group had no material contingent liabilities as at 30 June 2009.

Use of net proceeds from the Company's IPO

	Net proceeds raised RMB'000	**Utilized proceeds RMB'000**	**Utilized proceeds RMB'000**
Establishment of PL 7	493,000	352,500	140,500
Expansion of recovered paper collection points	44,800	44,800	—
Research and development	19,600	17,200	2,400
Installation of enterprise resource planning system	4,800	4,800	—
	562,200	419,300	142,900

As at 30 June 2009, the unutilized proceeds were primarily deposited with licensed banks as short-term deposits in China.

Corporate Governance and Other Information

Code on 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 six-month period ended 30 June 2009 (the "Current Period"), 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 Current Period.

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 audit committee consists of the three independent non executive Directors, namely Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie is the chairman of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the Current Period and discussed the financial matters with management. The unaudited condensed consolidated financial statements of the Group for the Current Period have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

Corporate Governance and Other Information

Employees and Remuneration Policies

The Group had approximately 1,450 employees as at 30 June 2009. The staff costs for 1H 2009 was RMB28.0 million, which was comparable to RMB29.3 million for 1H 2008.

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.

Dividend

The Directors do not recommend the payment of dividend for the first six months ended 30 June 2009.

Purchase, Sale or Redemption of Securities

During the first six months ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Directors' interests in securities

As at 30 June 2009, 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)]	172,643,526	43.05%
Mr. Shi Weixin	Corporate interest[(1)]	172,643,526	43.05%
Mr. Zhang Zengguo	Corporate interest[(1)]	172,643,526	43.05%
Mr. Wang Yilong	Corporate interest[(1)]	172,643,526	43.05%

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.

(b) Long positions in underlying shares:

Movements of the share options granted under the Pre-IPO Share Option Scheme for the Current Period are as follows:

		Number of share options				
Name of Director	**Date of Grant**	**As at 1 January 2009**	**Exercised during the period**	**Forfeited during the period**	**As at 30 June 2009**	**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)
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)

Notes:

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

Save as disclosed above, no other option was granted, cancelled or forfeited during the Current Period.

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

So far as the Directors are aware, as at 30 June 2009, 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 Lane 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 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 30 June 2009.

Share Options Granted to Other Eligible Participants

Movements of the share options granted under the Pre-IPO Share Option Scheme for the Current Period are as follows:

	Number of share options				
Date of Grant	**As at 1 January 2009**	**Exercised during the period**	**Forfeited during the period**	**As at 30 June 2009**	**Exercise period**
19 November 2007	2,080,000	—	—	2,080,000	(i)
19 November 2007	2,080,000	—	2,080,000	—	(ii)
19 November 2007	2,080,000	—	2,080,000	—	(iii)
19 November 2007	2,080,000	—	2,080,000	—	(iv)

Notes:

(i) From 1 January 2009 to 31 December 2009

(ii) From 1 January 2010 to 31 December 2010

(iii) From 1 January 2011 to 31 December 2011

(iv) From 1 January 2012 to 31 December 2012

Report on Review of Interim Financial Information

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 17 to 32, which comprises the condensed consolidated statement of financial position of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2009 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 September 2009

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	NOTES	Six months ended 30 June 2009 RMB'000 (unaudited)	Six months ended 30 June 2008 RMB'000 (unaudited)
Revenue	4	**769,426**	842,611
Cost of sales		**(669,096)**	(704,041)
Gross profit		**100,330**	138,570
Other income		**33,166**	34,296
Other expense		**(3,145)**	(7,340)
Selling and distribution expenses		**(54,103)**	(33,618)
Administrative expenses		**(32,890)**	(37,419)
Change in fair value of derivative financial instruments		**(189)**	—
Finance costs		**(26,765)**	(13,839)
Profit before tax	5	**16,404**	80,650
Income tax charge	6	**(4,371)**	(6,614)
Profit for the period and total comprehensive income		**12,033**	74,036
Profit for the period and total comprehensive income attributable to:			
Owners of the Company		**10,141**	72,398
Minority Interests		**1,892**	1,638
		12,033	74,036
Earnings per share	8		
— Basic		**0.03**	0.18
— Diluted		**0.03**	0.18

Condensed Consolidated Balance Sheet

At 30 June 2009

	NOTES	At 30 June 2009 RMB'000 (unaudited)	At 31 December 2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**1,582,160**	1,502,266
Prepaid lease payments		**90,831**	90,257
Goodwill		**18,692**	18,692
Deferred tax assets		**7,910**	8,672
		1,699,593	1,619,887
Current assets			
Prepaid lease payments		**1,953**	1,936
Inventories		**307,990**	226,156
Loans receivable		**—**	40,811
Trade receivables	10	**170,493**	171,442
Bills receivable	10	**466,183**	412,252
Prepayments and other receivables		**67,737**	32,770
Derivative financial instruments		**—**	2,434
Restricted bank deposits		**230,647**	233,190
Bank balances and cash		**118,068**	122,689
		1,363,071	1,243,680
Current liabilities			
Trade payables	11	**489,002**	375,217
Bills payables	11	**10,000**	—
Other payables		**48,918**	64,855
Payable for construction work, machinery and equipment		**126,268**	155,107
Current income tax liabilities		**3,783**	3,145
Deferred income — current portion		**1,587**	1,365
Derivative financial instruments		**—**	6,431
Bank borrowings — due within one year	12	**660,241**	784,432
Discounted bill financing	13	**238,091**	43,804
		1,577,890	1,434,356
Net current liabilities		**(214,819)**	(190,676)
Total assets less current liabilities		**1,484,774**	1,429,211

Condensed Consolidated Balance Sheet

At 30 June 2009

	NOTES	At 30 June 2009 RMB'000 (unaudited)	At 31 December 2008 RMB'000 (audited)
Capital and reserves			
Share capital	14	**37,872**	37,872
Reserves		**1,158,283**	1,166,392
Equity attributable to owners of the Company		**1,196,155**	1,204,264
Minority interests		**39,667**	31,205
Total equity		**1,235,822**	1,235,469
Non-current liabilities			
Bank borrowings — due after one year	12	**198,783**	149,067
Other borrowings		**17,442**	17,442
Deferred income — non-current portion		**24,928**	19,504
Deferred tax liabilities		**7,799**	7,729
		248,952	193,742
Total equity and non-current liabilities		**1,484,774**	1,429,211

The interim financial report on pages 17 to 32 were approved by the board of directors on 15 September 2009 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Zhang Zengguo
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2008 (audited)	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
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	–	72,398	72,398	1,638	74,036
Issue of shares	699	–	41,219	–	–	–	–	–	–	–	41,918	–	41,918
Transaction costs attributable to issue of shares	–	–	(1,471)	–	–	–	–	–	–	–	(1,471)	–	(1,471)
Acquisition of additional interests in a subsidiary	–	–	–	–	(178)	–	–	–	–	–	(178)	(7,537)	(7,715)
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	313	313
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(996)	(996)
Recognition of equity-settled share-based payments	–	–	–	–	–	6,362	–	–	–	–	6,362	–	6,362
At 30 June 2008 (unaudited)	38,482	–	792,344	(2,776)	83,754	7,963	4,196	20,956	5,429	269,301	1,219,649	30,953	1,250,602
At 1 January 2009 (audited)	**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**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,141**	**10,141**	**1,892**	**12,033**
Contributions from minority shareholders *(note)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,568**	**6,568**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**(5,523)**	**–**	**–**	**–**	**–**	**(5,523)**	**–**	**(5,523)**
Dividend paid to minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Dividend paid to owners of the Company	**–**	**–**	**(12,727)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,727)**	**–**	**(12,727)**
Deemed disposal of interest in a subsidiary *(note)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12**	**12**
At 30 June 2009 (unaudited)	**37,872**	**610**	**779,617**	**(2,776)**	**83,754**	**6,596**	**4,196**	**30,506**	**5,429**	**250,351**	**1,196,155**	**39,667**	**1,235,822**

Note: On 26 February 2009, 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd) ("Changdong Paper Recovery"), a subsidiary of the Company, entered into an agreement with several independent third parties, under which agreement these new investers agreed to invest RMB6,500,000 directly in Changdong Paper Recovery. Upon the completion of the transaction, the Group's interest in Changdong Paper Recovery reduced from 100% to 86% and a loss on deemed disposal of approximately RMB12,000 was recognised.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Six months ended 30 June 2009 RMB'000 (unaudited)	Six months ended 30 June 2008 RMB'000 (unaudited)
Net cash (used in) from operating activities	**(13,014)**	973
Investing activities		
Purchase of property, plant and equipment	**(138,722)**	(492,828)
Prepaid lease payments of land use rights	**(1,538)**	(4,016)
Proceeds on disposal of property, plant and equipment	**742**	703
Acquisition of additional interests in a subsidiary	**—**	(5,606)
Capital contribution by minority shareholders of subsidiaries	**6,500**	—
Interest received	**8,476**	772
Decrease (increase) in restricted bank deposits	**2,543**	(172,503)
Decrease (increase) in loans receivable	**40,811**	(157,387)
Government grants received	**6,510**	—
Net cash used in investing activities	**(74,678)**	(830,865)
Financing activities		
Proceeds from issue of shares	**—**	41,918
Payment of transaction costs attributable to issue of new shares	**—**	(1,471)
Capital contribution by minority shareholders of subsidiaries	**68**	313
New borrowings raised	**550,929**	506,543
Borrowings repaid	**(625,404)**	(220,298)
Increase in discounted bill financing	**194,287**	4,106
Dividends paid to owners of the Company	**(12,727)**	—
Dividends paid to minority shareholders of a subsidiary	**(10)**	(996)
Interest paid	**(24,072)**	(12,766)
Advance from related parties	**—**	217
Net cash from financing activities	**83,071**	317,566
Net decrease in cash and cash equivalents	**(4,621)**	(512,326)
Cash and cash equivalents at beginning of the period	**122,689**	648,871
Cash and cash equivalents at end of the period	**118,068**	136,545

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 12 December 2007.

The principal activities of the Group are production and sale of paper products.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The Group has net current liabilities of approximately RMB214,819,000 as at 30 June 2009. The interim financial information has been prepared on a going concern basis because the directors of the Company consider that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair value, as appropriate.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRS") which are effective for the Group's financial year beginning on 1 January 2009.

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, IAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14 (see note 4). The adoption of the new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

3. PRINCIPAL ACCOUNTING POLICIES — continued

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

IFRSs (Amendments)	Amendments to IFRS5 as part of Improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 18	Transfers of Assets from Customers[4]

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

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for transfers on or after 1 July 2009

The adoption of IFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition dates are 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 other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Company's senior executive management, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of IFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14 and the adoption of IFRS 8 has changed the basis of measurement of segment profit or loss.

4. SEGMENT INFORMATION — continued

(a) Segment result

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2009

	Paper products					
	White top linerboard RMB'000	**Light-coated linerboard RMB'000**	**Core board RMB'000**	**Specialized paper products RMB'000**	**Electricity and steam RMB'000**	**Total RMB'000**
Revenue from external customers	**350,963**	**166,115**	**168,019**	**42,218**	**42,111**	**769,426**
Inter-segment revenue	**—**	**—**	**—**	**—**	**111,792**	**111,792**
Reportable segment revenue	**350,963**	**166,115**	**168,019**	**42,218**	**153,903**	**881,218**
Reportable segment profit	**45,625**	**26,745**	**18,818**	**3,040**	**13,702**	**107,930**

Six months ended 30 June 2008

	Paper products					
	White top linerboard RMB'000	**Light-coated linerboard RMB'000**	**Core board RMB'000**	**Specialized paper products RMB'000**	**Electricity and steam RMB'000**	**Total RMB'000**
Revenue from external customers	507,947	147,357	84,997	68,075	34,235	842,611
Inter-segment revenue	—	—	—	—	87,044	87,044
Reportable segment revenue	507,947	147,357	84,997	68,075	121,279	929,655
Reportable segment profit	81,272	29,913	19,294	3,744	7,305	141,528

4. SEGMENT INFORMATION — continued

(b) Reconciliations of reportable segment profit

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Profit		
Reportable segment profit	**107,930**	141,528
Unrealized profit on intragroup sales	**(16,650)**	(9,025)
	91,280	132,503
Selling and distribution expenses	**(54,103)**	(33,618)
Administrative expense	**(28,710)**	(33,926)
Other income	**33,037**	33,267
Other expense	**(3,095)**	(7,319)
Finance cost	**(21,816)**	(10,257)
Change in fair value of derivative financial instruments	**(189)**	—
Consolidated profit before taxation	**16,404**	80,650

Segment profit represents the gross profit earned by paper product segments and the profit before tax earned by electricity and steam segment separately. The Group does not allocate operating expenses and other income to paper product segment and does not allocate the change in fair value of derivative financial instruments to individual reporting segment when making decisions about resources to be allocated to the segment and assessing its performance.

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Depreciation of property, plant and equipment	**34,830**	24,634
Government grants *(note i)*	**(22,686)**	(919)
Release of prepaid lease payments	**947**	936
Loss on disposal of property, plant and equipment	**650**	102
Reversal of allowance for inventories *(note ii)*	**(3,918)**	—
Exchange gain	**(296)**	(11,110)
Exchange loss	**224**	6,892

Notes:

i. According to "Notice of the Ministry of Finance and the State Administration of Taxation on the VAT policies on Renewable Resources (No. 157 [2008] of the Ministry of Finance)" which was effective from 1 January 2009, the Company obtained value-added tax refund for sales of renewable resources with an amount of approximately RMB21,443,000 (2008: nil) for the current period from local finance authorities.

ii. The Group reversed RMB3,918,000 (2008: nil) of an inventory allowance write-down based on the sales proceeds of such inventories received during current period. The amount reversed has been included in cost of sales in profit or loss.

6. INCOME TAX CHARGE

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**3,539**	2,170
Deferred tax charge	**832**	4,444
Charge for the period	**4,371**	6,614

6. INCOME TAX CHARGE — continued

In 2008, the Ministry of Finance and the State Administration of Taxation issued several tax circulars which clarify the implementation of the New Enterprise Income Tax Law and which have an impact on foreign investment enterprises. For enterprises which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of tax reductions and exemptions, such as the "two-year tax exemption followed by three-year 50% tax reduction", etc., will 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. 昌樂世紀陽光紙業有限公司 (Changle Century Sunshine Paper Industry Co., Ltd.) and 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.), the PRC subsidiaries of the Company, are levied at 12.5% (2008: 12.5%) for the period ended 30 June 2009 based on relevant tax circulars. Other PRC subsidiaries are subject to the statutory tax rate of 25% for both periods.

No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2008 and 2009 as the Group did not have any assessable profit during both periods.

7. DIVIDENDS

During the current period, a dividend of HK$0.036 per share (equivalent to approximately RMB0.032 per share) (2008: nil), amounting to an aggregate amount of approximately RMB12,727,000 (2008: nil) was declared and paid to shareholders as the final dividend for 2008.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009.

8. EARNINGS PER SHARE

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

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share (Profit for the period attributable to owners of the Company)	**10,141**	72,398

8. EARNINGS PER SHARE — continued

	Six months ended 30 June 2009 '000	Six months ended 30 June 2008 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**401,044**	407,418

The computation of diluted earnings per share does not assume the exercise of share options as the exercise prices of share options were higher than the average market price during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB14,018,000 (2008: RMB31,718,000) on the acquisition of property, plant and equipment and approximately RMB102,248,000 (2008: RMB430,579,000) on construction in progress in order to increase its manufacturing capabilities.

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB1,542,000 (2008: RMB805,000) for proceeds of RMB742,000 (2008: RMB703,000), resulting in a loss on disposal of RMB650,000 (2008: RMB102,000).

10. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts at the end of the reporting period:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
0–30 days	**97,855**	125,576
31–90 days	**50,194**	34,532
91–365 days	**21,386**	10,948
Over 1 year	**1,058**	386
	170,493	171,442

10. TRADE AND BILLS RECEIVABLES — continued

The aged analysis of bills receivable at the end of the reporting period is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
0–90 days	**229,581**	222,573
91–180 days	**236,602**	189,679
	466,183	412,252

11. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade payables at the end of the reporting period:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
0–90 days	**298,558**	194,538
91–365 days	**180,847**	173,380
Over 1 year	**9,597**	7,299
	489,002	375,217

Approximately RMB155,201,000 was included in the balance of trade payable which have been settled by the endorsed bills as at 30 June 2009.

The aged analysis of bills payable at the end of the reporting period is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
0–90 days	**10,000**	—
	10,000	—

12. BORROWINGS

The Group obtained new loans amounting to RMB550,929,000 (2008: RMB506,543,000), and repaid RMB625,404,000 (2008: RMB220,298,000) during the period. The newly raised loans bear interest at market rates from 0.93% to 6.90% (2008: 5.51% to 12.17%) per annum.

13. DISCOUNTED BILL FINANCING

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

14. SHARE CAPITAL

		Share capital	
	Number of shares	HK$'000	Shown in the condensed consolidated financial statement RMB'000
Ordinary shares of HK$0.1 each issued and fully paid:			
At 1 January 2008	400,000,000	40,000	37,783
Issue of new shares	7,500,000	750	699
Shares repurchased and cancelled	(6,456,000)	(646)	(610)
At 31 December 2008 and 30 June 2009	**401,044,000**	**40,104**	**37,872**

15. SHARE-BASED PAYMENTS

On 19 November 2007, the Company granted options to the senior management and other employees to subscribe for 14,400,000 shares in the Company at an exercise price of HK$5.4 per share. The vesting of the option is subject to both the achievement of the operating and financial targets of the Group and the appraisal result of the grantees in the option scheme in both interim and annual period. Also, the grantees must remain in services with the Group until the vesting conditions are finalized.

The fair value of the options determined at the date of grant using the Binomial Model was approximately HK$23,815,000 (equivalent to approximately RMB22,301,000).

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions.

15. SHARE-BASED PAYMENTS — continued

Details of the share options outstanding during the current period are as follows:

	Number of options
Outstanding at 1 January 2009	**11,520,000**
Granted during the period	**—**
Forfeited during the period	**(8,640,000)**
Expired during the period	**—**
Outstanding at 30 June 2009	**2,880,000**

The Remuneration Committee and the Directors continuously monitor the operating and financial target of the Group and the annual appraisal of the grantees. During the current period, due to the failure to satisfy the specific vesting conditions in the share option scheme, 8,640,000 share options were forfeited and related expenses of RMB5,523,000 previously recognised in profit or loss was reversed accordingly.

16. CAPITAL COMMITMENTS

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**731,763**	671,969

17. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following significant transactions with a related party during the period

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Sales of goods to 濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.) ("Shengtai Medicine"), a non-controlling shareholder of a subsidiary of the Company	**41,205**	33,252

17. RELATED PARTY TRANSACTIONS — continued

(b) Balance with a related party

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade receivable		
— Shengtai Medicine	**2,390**	3,147

(c) Compensation of key management personnel

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

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Short term employee benefit	**919**	793
Retirement benefit scheme contributions	**18**	3
Equity-settled share-based payments	**—**	6,362
	937	7,158

During the current period, share-based payment expense of RMB5,523,000 in relation to the share options granted to the key management personnel was reversed in profit or loss due to the failure to satisfy the specific vesting conditions in the share option scheme.