China Sunshine Paper Holdings Company Limited

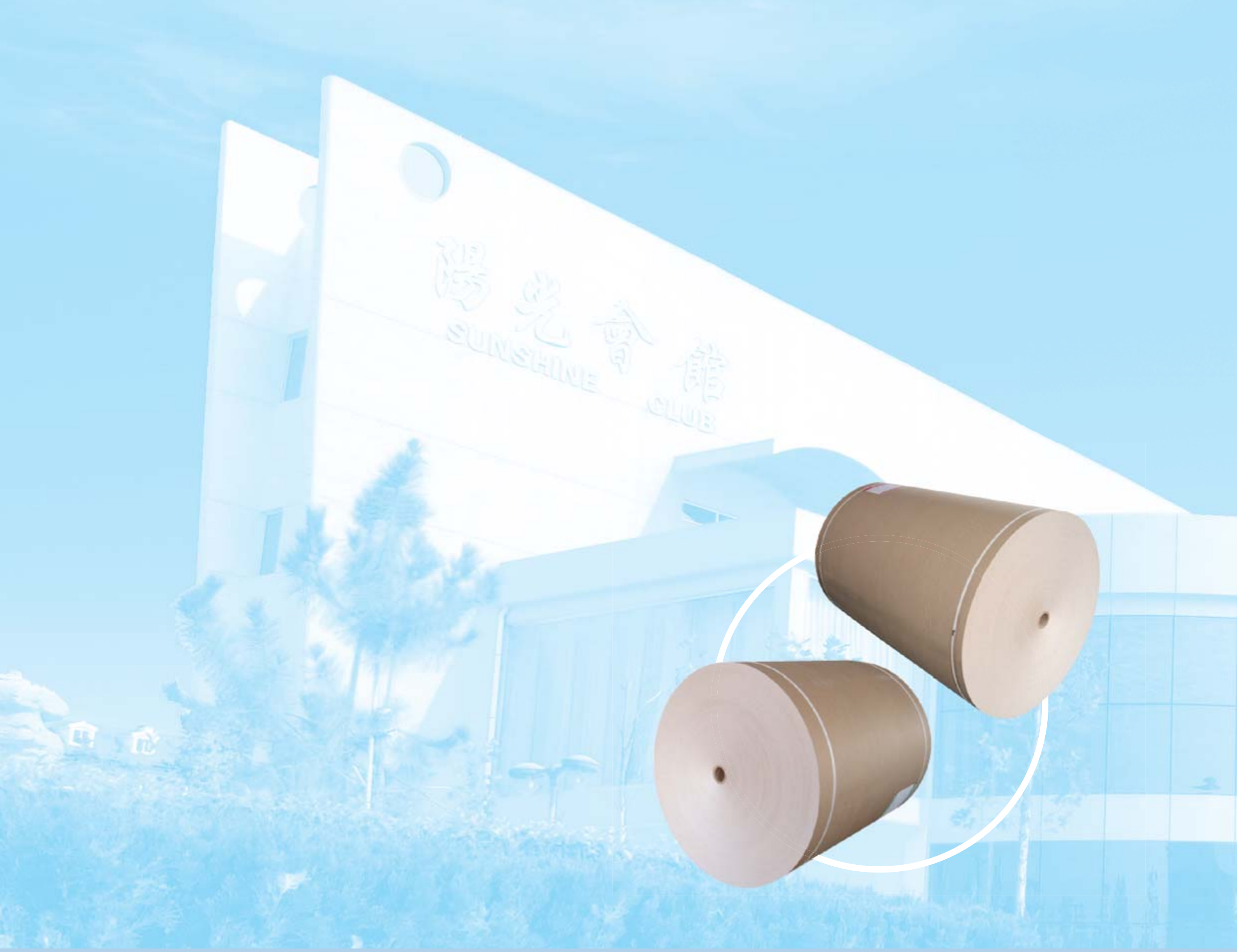
中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2002

Annual Report 2009

*For identification purposes only

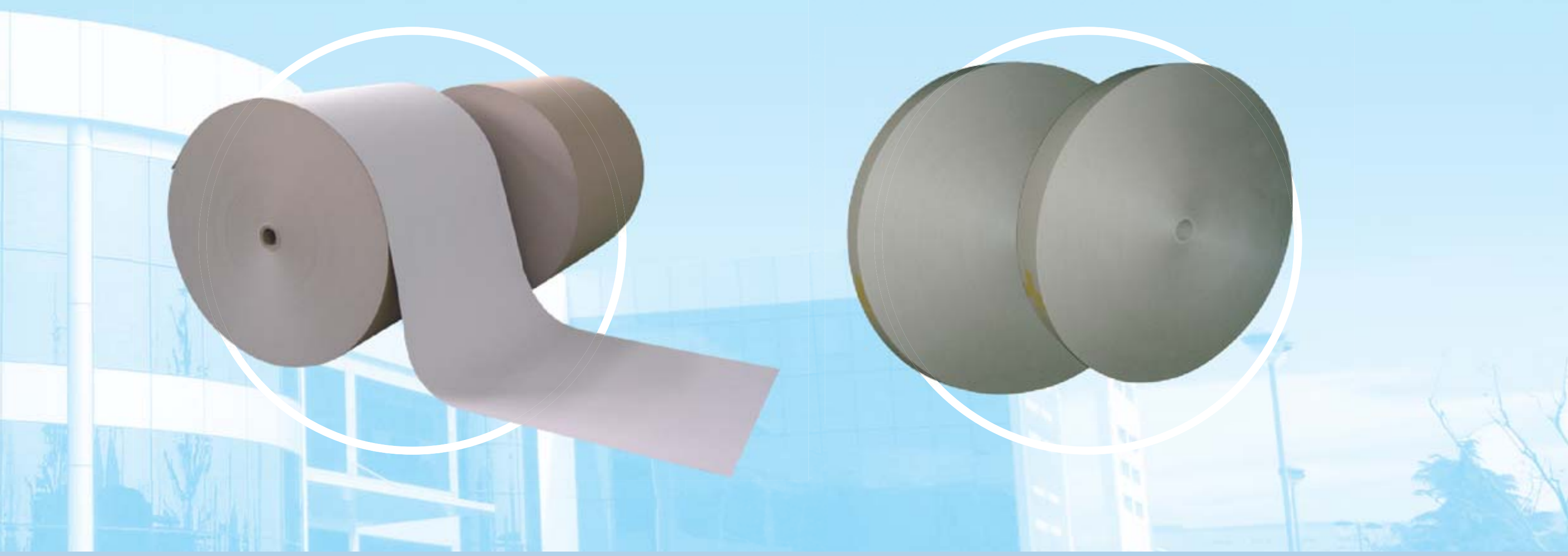


Main Products

White top linerboard

is used to provide the outer facing surface of the corrugating medium, and this combination of linerboard and fluted inner sheet of corrugating medium gives the board its rigid structure and stacking strength. White top linerboard is typically used as the packaging material for boxes which require high quality printability and stacking strength.

Main Products



Light coated linerboard

is a form of white top linerboard comprising a multiple-ply sheet composed of a bleached upper ply layer coated by a coating medium. Such coating allows superior printability by offering better brightness and gloss, and at the same time, delivers excellent ink transfer quality. The coating layer of the light coated linerboard is much thinner than that of the traditional coated duplex board products, and thus light coated linerboard is considered more environmentally friendly.

Core board

is the main material used to produce "cores" which are tubes generally used as the base around which various products, such as paper and yarn, are wound. It is predominantly used to produce durable spindles with the ability to withstand high spinning speeds, and to produce strong paper cores and related products.

China Sunshine Paper Holdings Company Limited

2009 Annual Report

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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 *(Chairlady)*
Mr. Wang Zefeng
Mr. Xu Ye

Remuneration Committee

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

Company Secretary

Mr. Ng Cheuk Him *CPA*

Authorised Representatives

Mr. Wang Dongxing
Mr. Ng Cheuk Him *CPA*

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
489 Hennessy Road
Causeway Bay
Hong Kong

Registered Office

Cricket Square
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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Legal advisers

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Stock Code

2002

Website

www.sunshinepaper.com.cn

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred as the "Group"), we are pleased to present the annual report of the Group for the financial year ended 31 December 2009.

Operation

The global economies suffered from negative growth in the first half of 2009 as a result of the global financial tsunami in the fourth quarter of 2008. The Group encountered intense pricing pressure, especially for high priced inventories in the first half of 2009. However, the credit condition and consumer sentiment around the world improved gradually since mid 2009 as a result of the collective stimulus actions of governments around the world. Meanwhile, the PRC government has also launched various economic stimulus measures which have made China to be the first country to recover from the global financial tsunami. With other local policies on promotion of domestic demand and stimulation of consumer spending, domestic consumption segment, especially food and beverages industry in which our key customers operate, is particularly noticeable among others in the recovery of China. As a result, the Group's operating result has gradually improved with the vitality of China's economy since the second half of 2009. The Group's production facilities have operated in full scale, sale orders have restored to pre-financial tsunami level and the profit margin has been increasing.

Production Facilities

Currently the Group has 6 efficient production lines with a designed annual production capacity of approximately 650,000 tonnes. The seventh production line, which adjoins the Group's production base in Shandong province and has a designed annual production capacity of 500,000 tonnes of white-top linerboard and light-coated linerboard, is now under construction. The construction of factory buildings and ancillary facilities such as power plant, waste water treatment and warehouse are nearly completed, and the installation of production equipment will take place in June 2010. We are confident that the seventh production line will commence its commercial production in the fourth quarter of 2010, and the total annual production capacity of the Group will then reach approximately 1,150,000 tonnes.

Product	Designed Annual Production Capacity (tonnes)
White top linerboard	110,000
Light-coated linerboard/White top linerboard*	250,000
Core Board	260,000
Specialized paper products	30,000
Sub total for existing production lines	650,000
The seventh production line for Light-coated linerboard/White top linerboard*#	500,000
Total	1,150,000

* *Production line interchangeable for production of light-coated linerboard and white top linerboard*

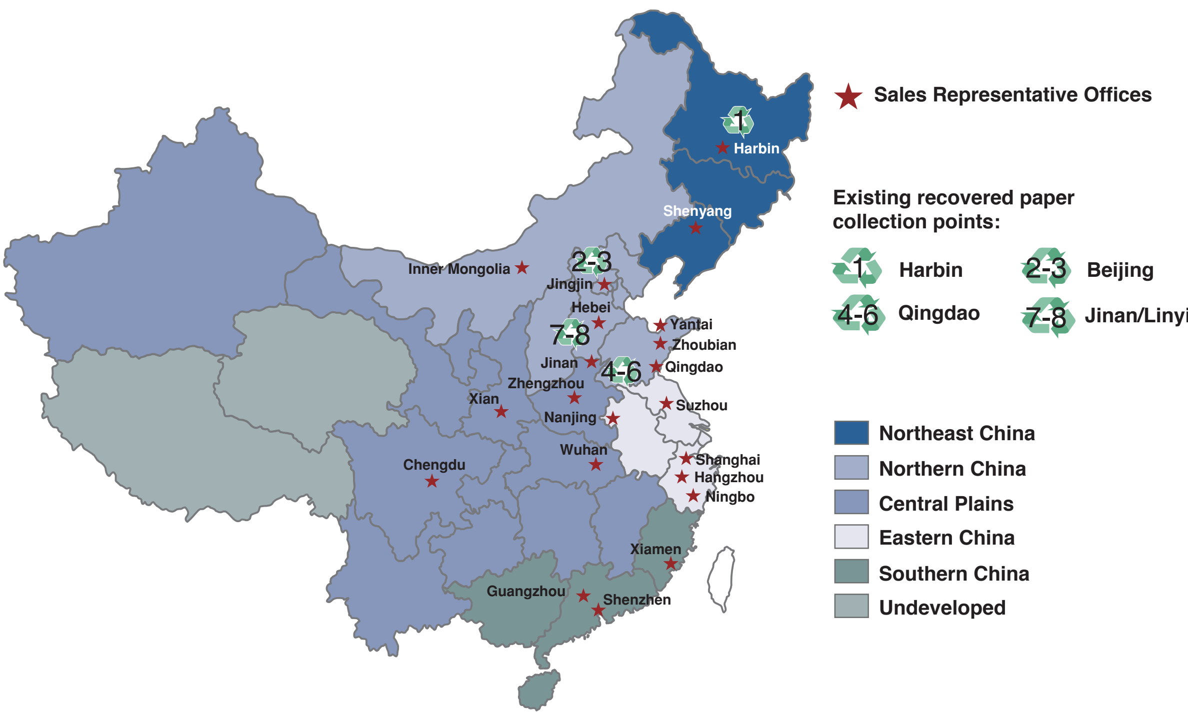
\# *Production line which will commence its production in the fourth quarter of 2010*

Chairman's Statement

Recovered Paper Collection Bases and Sales Representative Offices

As at the date of this report, the Group has 8 recovered paper collection bases and 21 sales representative offices in China. Recovered paper collection bases are strategically located for convenient transportation of raw materials to the Group's production base in Shandong province. We will continue to consolidate existing recovered paper collection bases and to expand new recovered paper collection bases in various second-tier cities. Sales representative offices facilitate the Group's efficiency in the nationwide sales and marketing activities. We will continue to take advantage of being able to have direct and close relationships with our customers and their end-users through different sales representative offices.

The following map shows the geographical location of the Group's recovered paper collection bases and sales representative offices as at the date of this report:



Outlook

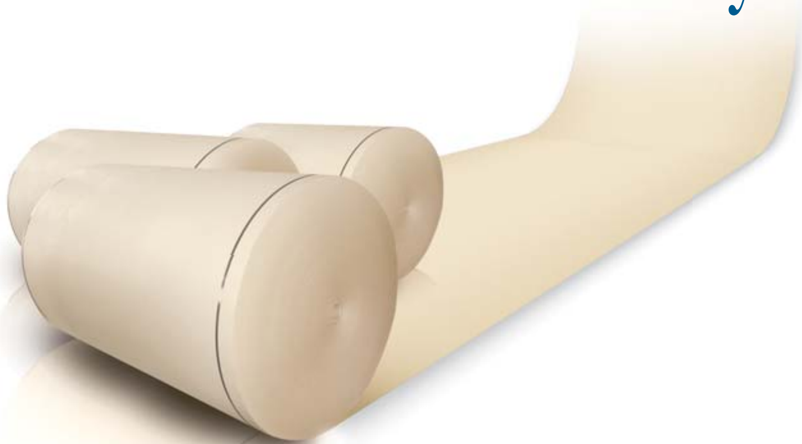
We see the initial signs of global economic recovery, particularly in China, which is expected to bring more business opportunities for the paper industry. With the seventh production line's products targeting the domestic demand of packaging paper, the Group is set to capture business opportunities to position itself for a higher market share. The seventh production line will also further enhance the production efficiency and make a greater room for profit margin improvement.

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

29 March 2010

Management Discussion and Analysis



Management Discussion and Analysis

Revenue

For the year ended 31 December 2009 ("FY 2009"), the Group's revenue was RMB1,697.7 million, representing a slight decrease of approximately 3.8% as compared to RMB1,764.6 million for the year ended 31 December 2008 ("FY 2008"). Sales of paper products was the largest component of the Group's revenue and accounted for approximately 95.1% while the remaining 4.9% represented the sales of electricity and steam to a minority shareholder of a subsidiary.

Sales of paper products decreased from RMB1,696.8 million for FY 2008 to RMB1,614.8 million for FY 2009, as a result of the significant drop in the average selling price ("ASP") of the paper products in the first half of 2009 outweighing the approximate 31.0% increase in sales volume of the paper products. Notwithstanding the significant drop in ASP of the paper products, the Group was able to record an improvement in gross profit margin of 14.4% for FY 2009 as compared to 13.0% for FY 2008.

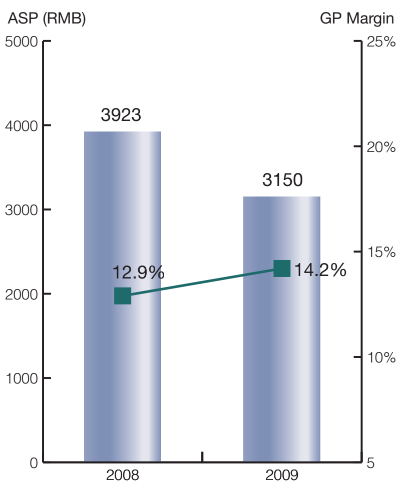
China continued to be the Group's principal market and thus domestic sales of paper products accounted for approximately 99.6% and 94.7% of the Group's total sales of paper products for FY 2009 and FY 2008, respectively.

The following table sets out the sales and gross profit margin by two business segments:

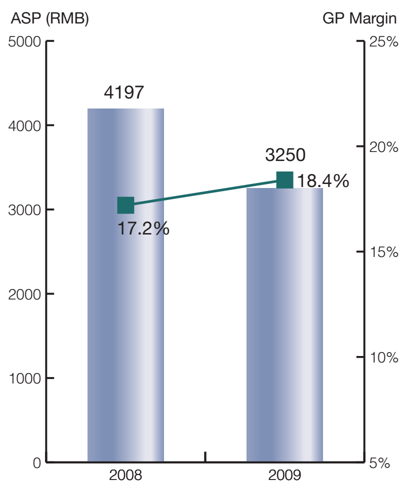
	FY 2009			FY 2008		
	RMB'000	%	Gross profit margin (%)	RMB'000	%	Gross profit margin (%)
Paper products						
White top linerboard	785,518	46.3	14.2	903,466	51.2	12.9
Light-coated linerboard	360,633	21.2	18.4	401,026	22.8	17.2
Core board	357,726	21.1	10.9	227,911	12.9	9.7
Specialized paper products	110,916	6.5	5.8	164,404	9.3	5.4
	1,614,793	95.1	14.4	1,696,807	96.2	13.0
Sales of electricity and steam	82,885	4.9	15.1	67,745	3.8	2.0
	1,697,678	100.0	13.9	1,764,552	100.0	12.6

The following chart set out the ASP and the gross profit margins of white top linerboard, light-coated linerboard and core board:

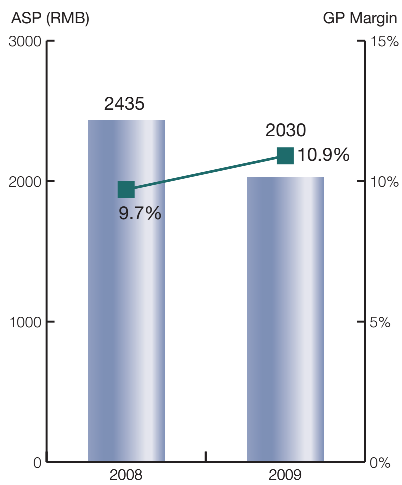
White Top Linerboard



Light-coated Linerboard



Core Board



Cost of sales

Domestic recovered paper, overseas recovered paper and kraft pulp are the principal raw materials used in the manufacture of the Group's paper products. Overseas recovered paper was mainly sourced from the United States of America, and kraft pulp was mainly imported from South America and Canada. The Group continued to consolidate its recovered paper collection bases to secure a stable source of domestic recovered paper at a lower cost. Currently the Group's paper collection bases supply approximately 30% of the Group's domestic recovered paper consumed.

Raw materials cost was the largest component of the cost of sales and it represented approximately 72.5% of the cost of sales for FY 2009 (FY 2008: 78.9%). Raw materials cost decreased by approximately 13.0% from RMB1,217.2 million for FY 2008 to RMB1,058.7 million for FY 2009, as a result of a lower purchase cost of raw materials and the minimization of raw materials wastage during the production.

Overhead costs mainly comprised of depreciation, energy cost, consumables and maintenance cost. The increase in overhead costs by approximately 25.9% from RMB290.6 million for FY 2008 to RMB365.7 million for FY 2009 was mainly due to the increase in the Group's production volume in FY 2009.

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

	Year ended 31 December			
	2009		2008	
	RMB'000	%	RMB'000	%
Raw materials cost				
Domestic recovered paper	442,800	30.3	483,528	31.3
Overseas recovered paper	215,120	14.7	275,756	17.9
Kraft pulp	202,297	13.9	209,290	13.6
Chemicals and others	198,520	13.6	248,675	16.1
	1,058,737	72.5	1,217,249	78.9
Labour costs	36,903	2.5	34,790	2.3
Overhead costs	365,690	25.0	290,572	18.8
	1,461,330	100.0	1,542,611	100.0

Gross profit and gross profit margin

Notwithstanding the Group's revenue recorded a slight decrease of 3.8%, the gross profit increased by RMB14.4 million from RMB221.9 million for FY 2008 to RMB236.3 million for FY 2009 due to the increase in gross profit margin from 12.6% for FY 2008 to 13.9% for FY 2009. The gross profit margins for the two business segments, namely paper products, and electricity and steam were 14.4% and 15.1%, respectively for FY 2009, as compared to 13.0% and 2.0%, respectively for FY 2008.

Other profit and loss items

Other income, gains and losses mainly comprised of interest income of RMB11.2 million and government grant of RMB46.7 million in relation to the valued-added tax refund for the sales of domestic recovered paper.

Distribution and selling expenses primarily consisted of transportation cost and staff costs in relation to the sales representative offices carrying out various sale promotion and after sale services. The selling and distribution expenses increased by approximately 39.4% from RMB74.9 million for FY 2008 to RMB104.5 million for FY 2009, which was mainly driven by the approximate 31.0% increase in sales volume for FY 2009.

Management Discussion and Analysis

Administrative expenses were RMB75.2 million for FY 2009, which were comparable to RMB76.9 million for FY 2008.

Finance costs were RMB58.6 million and RMB48.2 million, respectively, for FY 2009 and FY 2008. The increase in finance costs primarily resulted from the increase of the average bank borrowings during FY 2009 to finance the construction of the seventh production line.

Income tax expenses

Income tax expenses were RMB10.8 million for FY 2009 and the Group's effective tax rate was 18.6%. On the contrary, there was an income tax credit of RMB1.5 million for FY 2008, which was primarily due to a deferred tax credit of RMB6.4 million recorded in FY 2008. Except for a subsidiary whose principal business activity is the generation of electricity and steam, other profitable subsidiaries of the Group continue to enjoy preferential tax reductions and benefits in 2010.

Profit and total comprehensive income for the year attributable to owners of the Company

As a result of the factors discussed above, the net profit attributable to the equity holders of the Company for FY 2009 was RMB42.1 million, representing a 34.6% decrease comparing to RMB64.4 million for FY 2008.

Liquidity and Financial Resources

Working capital

The Group generally finances its operation with its internally generated cash flow from operation and credit facilities provided by its principal bankers. As at 31 December 2009, the Group had bank balances and cash of RMB357.5 million, restricted bank deposits of RMB363.9 million, and other current assets of RMB1,129.9 million, which mainly included inventories of RMB400.1 million, trade receivables of RMB137.9 million and bills receivables of RMB533.1 million.

Inventories and the inventory turnover increased to RMB400.1 million and 100 days, respectively as at 31 December 2009 from RMB226.2 million and 54 days, respectively as at 31 December 2008. The sharp increase was mainly driven by (i) the full operation of the sixth production line in FY 2009, and (ii) the strategic stock-up of low priced raw materials.

Trade receivables and the trade receivables turnover decreased to RMB137.9 million and 30 days, respectively as at 31 December 2009 from RMB171.4 million and 35 days, respectively as at 31 December 2008, primary due to the Group's strict enforcement of its credit policy.

The Group recorded net current liabilities of RMB100.4 million as at 31 December 2009. It was mainly because the Group still relied on some short term bank borrowings to finance the capital expenditures for the purchase and upgrade of production facilities, even though the Group has adjusted the mix of short term and long term bank borrowings to optimize the debt structure. Notwithstanding the Group had net current liabilities as at 31 December 2009, the balance showed a decrease by nearly 47.4% as compared to RMB190.7 million as at 31 December 2008.

Cashflow and borrowings

The Group recorded operating cash inflows before movements in working capital of RMB175.1 million for FY 2009 but cash outflows for operating activities of RMB104.7 million. The cash outflows for operating activities were mainly driven by the increase in inventories of RMB169.9 million for strategic stock-up of low priced raw materials and also the increase in bills receivable of RMB120.9 million.

The Group's net gearing ratio (calculated based on the total borrowings net of bank balances and cash, and restricted bank deposits divided by the total equity) was 83.4%, significantly higher than the 48.2% as at 31 December 2008. The increase was mainly due to the increase in bank borrowings to finance the construction of the seventh production line.

As at 31 December 2009, the Group had bank balances and cash of RMB357.5 million, restricted bank deposits of RMB364.0 million and approximately RMB1,288.3 million of unutilized banking facilities. The Group possesses sufficient financial resources to meet its commitments and working capital requirements.

Capital expenditure

During FY 2009, the Group's increase in fixed assets amounted to RMB474.6 million which were mainly for the construction of the seventh production line and its related production plant and facilities.

Capital commitments and contingent liabilities

Capital commitments in relation to capital expenditure contracted but not for provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment were RMB895.1 million as at 31 December 2009.

As at 31 December 2009, the Group had no material contingent liabilities.

Pledge of assets

As at 31 December 2009, the aggregate carrying amount of the assets of the Group pledged was RMB1,419.4 million.

Employees and remuneration policies

As at 31 December 2009, the Group had approximately 2,600 full-time employees. The staff costs for FY 2009 were approximately RMB62.5 million, representing a decrease of 10.4% over FY 2008. The decrease mainly reflected the decrease of share-based payment for share options.

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. Individual employees' 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.

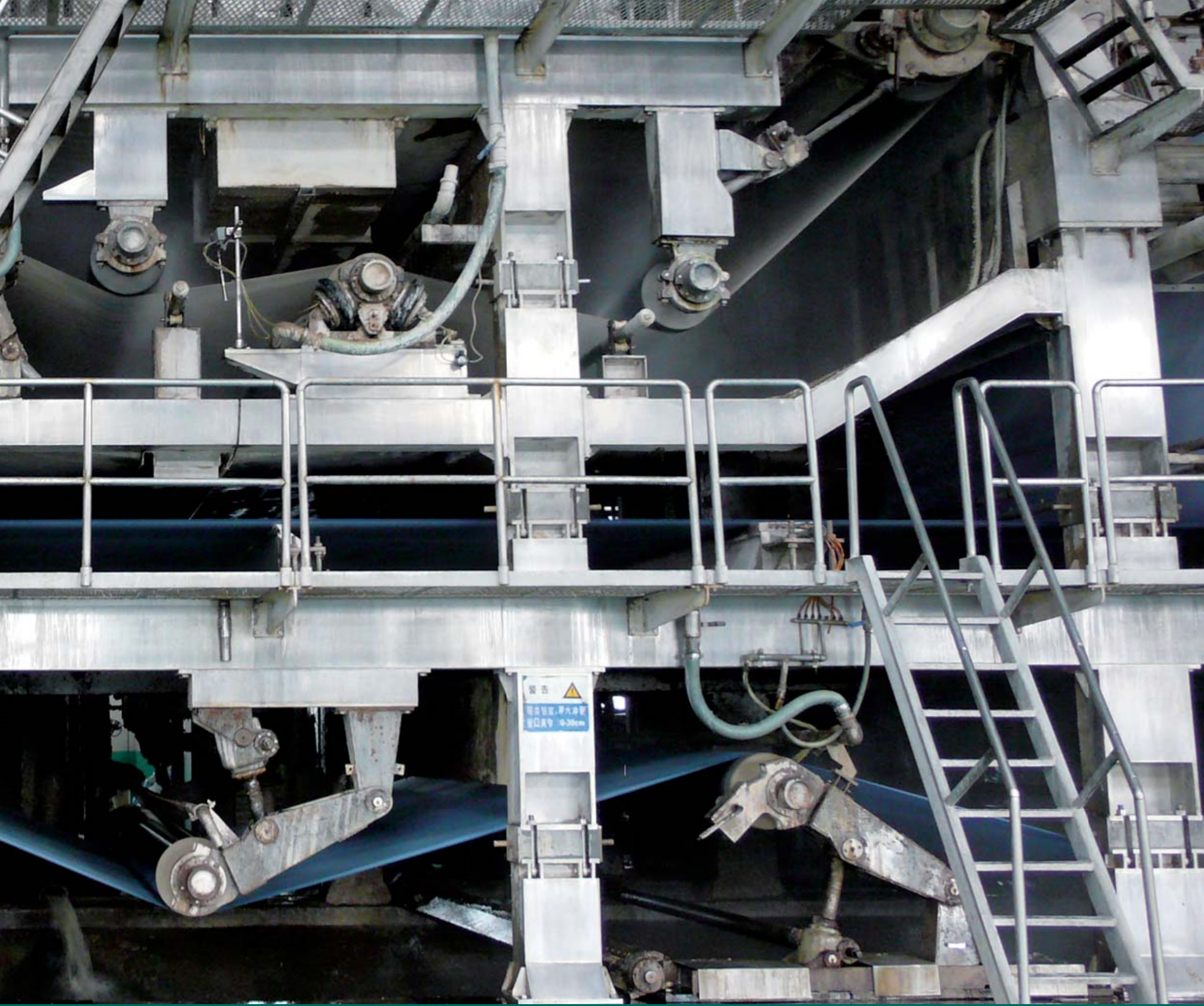
Use of net proceeds from the Company's initial public offering

As at 31 December 2009, the utilization of the proceeds from the Company's initial public offering were as follows:

	Net proceeds raised		Utilized proceeds		Unutilized proceeds	
	RMB'000	%	RMB'000	%	RMB'000	%
Establishment of the seventh production line	493,000	87.7	435,000	86.3	58	100.0
Expansion of recovered paper collection points	44,800	8.0	44,800	8.9	—	—
Research and development costs	19,600	3.5	19,600	3.9	—	—
Installation of enterprise resource planning system	4,800	0.8	4,800	0.9	—	—
	562,200	100.0	504,200	100.0	58	100.0

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

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 2009, 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 Dongxing, 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 to all Directors by the Company to confirm that all Directors have complied with the Model Code during the year ended 31 December 2009.

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.

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. Xu Fang, Mr. Wang Zefeng and Ms. Wong Wing Yee, Jessie will retire from office at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election.

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

The Board reviews 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.

Corporate Governance Report

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 2009, six 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 2009 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 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 2009 and all members have attended such meeting.

Auditors' Remuneration

For the year ended 31 December 2009, 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 2009, 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 2009, 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 47 to 48.

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 of 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 2009 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 2009;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2009;
- reviewed the external auditor's audit plan, 2009 letter of representation and audit engagement letter;
- considered and approved the 2009 external audit fees;
- reviewed the Company's internal control systems; and
- reviewed the "Continuing Connected Transactions" set out on pages 44 to 45 of this Annual Report.

Report of the Audit Committee

Financial Reports

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

Review of Internal Control and Risk Management Systems

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

Re-Appointment of External Auditor

The audit committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the Company's external auditor for the year ending 31 December 2010.

For the year ended 31 December 2009, 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 2009.

Directors, Senior Management and Staff

Board of Directors

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

Name	Age	Position in the Group
Executive Directors		
Mr. Wang Dongxing	47	Chairman and general manager
Mr. Shi Weixin	53	Vice chairman
Mr. Zhang Zengguo	44	Deputy general manager
Mr. Wang Yilong	47	
Non-executive Directors		
Mr. Wang Junfeng	36	
Mr. Xu Fang	32	
Independent non-executive Directors		
Mr. Wang Zefeng	49	
Ms. Wong Wing Yee, Jessie	44	
Mr. Xu Ye	37	

Executive Directors

Mr. Wang Dongxing, aged 47, 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 from 1985 to 1999. He was mainly responsible for the daily operation and management in Shandong Chenming. He served as a 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 a 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 53, 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 44, 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.

Directors, Senior Management and Staff

Mr. Wang Yilong, aged 47, is an executive Director of the Group and is responsible for facilities management. Mr. Wang has been with the Group since the establishment of Changle Sunshine in 2000. He graduated from Tongji University in 1985, with a major in electronic automation. He is also the deputy general manager of the Shanghai Institute since 1993, with the responsibility of marketing, sales and production. He was the technical director of the Shanghai Rectifier General Factory from 1985 to 1992, and was responsible for the design of products and sales.

Non-executive Directors

Mr. Wang Junfeng, aged 36, is a non-executive Director. He obtained a Bachelor's degree majoring in Chemistry in Lanzhou University (蘭洲大學) in 1995 and a Master's degree majoring in finance from McMaster University of Canada in 2004. He is currently the executive director of Legend Capital Management Limited (聯想投資有限公司) and is responsible for investment management. Prior to joining Legend Capital Management Limited in 2004, Mr. Wang worked in Lenovo Group Limited (聯想集團有限公司) between 1997 and 2001 and in Beijing Building Material Group (北京金隅集團) between 1995 and 1997.

Mr. Xu Fang, aged 32, 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 49, 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 worked in Shandong Light Industry Design Institute from 1988 to 2001.

Ms. Wong Wing Yee, Jessie, aged 44, 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 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, she is an independent non-executive Director of Shengli Oil & Gas Pipe Holdings Limited (stock code: 1080).

Mr. Xu Ye, aged 37, 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. 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 obtained 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 34, 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 worked at Shandong Chenming and was responsible for equipment management and maintenance.

Directors, Senior Management and Staff

Mr. Jia Haitao, aged 37, is the assistant to general manager of the Group and the head of the securities department. Mr. Jia joined the Group in 2001. Mr. Jia has over 18 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. Liu Wenzheng, aged 38, 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 Liu joined the Group in February 2010. Mr Liu graduated from Shandong Administration Institute with a Bachelor's degree in accountancy in 1993. Prior to joining the Group, he was the chief financial controller of Shandong Haoxin Group. He has also worked as a chief financial officer, deputy chief officer and chief officer of the audit department of Shandong Chenming Paper Industry Group Qihe Cardboard Co., Ltd and was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

Mr. Ruan Guoting, aged 53, 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 post-secondary degree in Architecture Management in 1995. Prior to joining the Group, Mr. Ruan had worked as an engineer in Shouguang Second Construction Engineering Company and Shandong Chenming.

Mr. Sang Ziqian, aged 55, 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 39, is the deputy general manager of the Group and is responsible for domestic sales. Mr. Wang joined the Group in 2001. Mr. Wang had 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 48, 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 included sales and marketing.

Mr. Ng Cheuk Him, aged 35, is the chief financial controller of the Group and one of the joint company secretaries of the Company. Prior to joining the Group, Mr. Ng held a senior position in an international corporate and investment bank in Hong Kong. Mr. Ng has an extensive 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.

Joint Company Secretaries

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

Ms. Jiao Jie, aged 29, 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. Ms. Jiao resigned as a joint company secretary of the Company with effect from 31 March 2010.

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 2009.

Principal activities

The Group is principally engaged in the production and sale of paper products.

Results and appropriations

The consolidated results of the Group for the year ended 31 December 2009 are set out in the consolidated financial statements on page 49.

Dividend

The Directors propose to declare a final dividend of RMB2.1 cents (equivalent to HK2.4 cents) per ordinary share for the year ended 31 December 2009 (RMB3.2 cents 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 27 May 2010. If approved, it is expected that the proposed final dividend will be paid to shareholders on or before 15 June 2010.

Reserves

Details of the change in reserves of the Group for the year ended 31 December 2009 are set out in the consolidated financial statements on page 52.

Donations

During the financial year ended 31 December 2009, the Group donated a total of RMB0.1 million (2008: RMB0.1 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 2009 are set out in notes 14 and 15 to the consolidated financial statements.

Share capital

Details of the movements in the share capital of the Company during the year ended 31 December 2009 are set out in note 31 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 is 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 122.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 41 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group are set out in notes 29 and 30 to the consolidated financial statements.

Purchase, sale or redemption of securities

During the financial year ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Report of the Directors

Directors

The Directors who held office during the year ended 31 December 2009 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

Non-executive Directors

Mr. Xu Fang
Mr. Wang Junfeng *(appointed on 26 May 2009)*
Mr. Wang Nengguang *(resigned on 26 May 2009)*

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. Xu Fang, Mr. Wang Zefeng and Ms. Wong Wing Yee, Jessie will retire at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election.

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

Directors' service contracts

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

Details of directors' emolument for each of the Directors for the year ended 31 December 2009 are set out in note 10 to the consolidated financial statements.

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

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 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 is 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 year ended 31 December 2009 are as follows:

Name of Director	Date of Grant	Number of share options: As at 1 January 2009	Exercised during the year	Forfeited and expired during the year	As at 31 December 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 year ended 31 December 2009.

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 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	21,796,300	5.43%
	Long	Security interest in shares	991,500	0.24%

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 China Sunshine is wholly-owned by a group of 20 individuals 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 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 31 December 2009.

Share Option Scheme and Pre-IPO Share Option Scheme

(a) Share Option Scheme

Pursuant to the written resolution of the shareholders of the Company 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.

The exercise 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 appraisal 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.

(b) Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved by written resolutions of the shareholders of the Company 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 overallotment 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 chart "movements of the share options granted to other eligible participants 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.

Movement of the share option granted to other eligible participants under the Pre-IPO Share Option Scheme

	Number of share options				
Date of Grant	As at 1 January 2009	Exercised during the period	Forfeited and expired during the year	As at 31 December 2009	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)

(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

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 2009, the Group had approximately 2,600 full-time employees. The staff costs for the year ended 31 December 2009 were approximately RMB62.5 million, representing a decrease of 10.4% over last year. The decrease mainly reflected the decrease of share-based payment of share options.

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 39 to the consolidated financial statements 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 in the calendar year 2007 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 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 2009, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB54.6 million, which was below the annual cap of RMB85.1 million.

(b) An electricity supply agreement dated 19 November 2007 was entered into between Shengtai Medicine and Shengshi Thermoelectricity. Shengshi Thermoelectricity 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 2009, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB24.9 million, which was below the annual cap of RMB48.9 million.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the factual findings on these procedures to the Board. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor 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 has confirmed that the continuing connected transactions:

(1) have been approved by the Board;

(2) are in accordance with the pricing policies of the Company;

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

(4) have not exceeded the annual cap amount disclosed in the prospectus of the Company dated 29 November 2007 (the "Prospectus").

Since the supply of steam and electricity contemplated under the aforesaid agreements will continue going forward, the Group has entered into new steam and electricity supply agreements with Shengtai Medicine on 27 October 2009 for a term of three years from 1 January 2010 to 31 December 2012 on substantially the same terms as the aforesaid steam and electricity supply agreements.

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.

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 2009 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, 29 March 2010

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 49 to 121, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009, and of its financial performance and 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

29 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	5	**1,697,678**	1,764,552
Cost of sales		**(1,461,330)**	(1,542,611)
Gross profit		**236,348**	221,941
Other income, gains and losses	7	**67,337**	46,795
Distribution and selling expenses		**(104,460)**	(74,939)
Administrative expenses		**(75,245)**	(76,933)
Change in fair value of derivative financial instruments		**(7,134)**	(3,997)
Finance costs	8	**(58,557)**	(48,150)
Profit before tax	9	**58,289**	64,717
Income tax (expense) credit	11	**(10,826)**	1,471
Profit and total comprehensive income for the year		**47,463**	66,188
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**42,147**	64,356
Minority interests		**5,316**	1,832
		47,463	66,188
Earnings per share	13		
— Basic (RMB)		**0.11**	0.16

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,897,055**	1,502,266
Prepaid lease payments	15	**90,650**	90,257
Goodwill	16	**18,692**	18,692
Deferred tax assets	17	**9,910**	8,672
		2,016,307	1,619,887
Current assets			
Prepaid lease payments	15	**1,969**	1,936
Inventories	18	**400,075**	226,156
Loans receivable	19	**—**	40,811
Trade receivables	20	**137,919**	171,442
Bills receivable	21	**533,115**	412,252
Prepayments and other receivables	22	**56,745**	32,770
Derivative financial instruments	27	**—**	2,434
Restricted bank deposits	23	**363,961**	233,190
Bank balances and cash	23	**357,505**	122,689
		1,851,289	1,243,680
Current liabilities			
Trade payables	24	**356,650**	375,217
Bills payable	24	**10,000**	—
Other payables	25	**81,689**	64,855
Payable for construction work, machinery and equipment		**192,789**	155,107
Income tax payable		**7,045**	3,145
Deferred income — current portion	26	**1,925**	1,365
Derivative financial instruments	27	**4,998**	6,431
Discounted bill financing	28	**126,606**	43,804
Bank borrowings — due within one year	29	**1,152,506**	784,432
Other borrowings — due within one year	30	**17,442**	—
		1,951,650	1,434,356
Net current liabilities		**(100,361)**	(190,676)
Total assets less current liabilities		**1,915,946**	1,429,211

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	31	**37,872**	37,872
Reserves	32	**1,190,289**	1,166,392
Equity attributable to owners of the Company		**1,228,161**	1,204,264
Minority interests		**41,876**	31,205
Total equity		**1,270,037**	1,235,469
Non-current liabilities			
Bank borrowings — due after one year	29	**610,401**	149,067
Other borrowings	30	**—**	17,442
Deferred income — non-current portion	26	**27,285**	19,504
Deferred tax liabilities	17	**8,223**	7,729
		645,909	193,742
Total equity and non-current liabilities		**1,915,946**	1,429,211

The consolidated financial statements on pages 49 to 121 were approved by the board of directors on 29 March 2010 and are signed on its behalf by:

Wang Dongxing	**Zhang Zengguo**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000 (note 32)	Capital reserve RMB'000 (note 32)	Share option reserve RMB'000	Assets revaluation reserve RMB'000 (note 32)	Statutory surplus reserve RMB'000 (note 32)	Discretionary surplus reserve RMB'000 (note 32)	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008	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 year	–	–	–	–	–	–	–	–	–	64,356	64,356	1,832	66,188
Acquisition of additional interest in a subsidiary (note i)	–	–	–	–	(178)	–	–	–	–	–	(178)	(7,537)	(7,715)
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 of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	415	415
Dividend paid 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
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	–	42,147	42,147	5,316	47,463
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,245)	(1,245)
Recognition of equity-settled share-based payments	–	–	–	–	–	(5,523)	–	–	–	–	(5,523)	–	(5,523)
Transfer upon expiry of share options	–	–	–	–	–	(6,596)	–	–	–	6,596	–	–	–
Transfer	–	–	–	–	–	–	–	3,429	–	(3,429)	–	–	–
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(10)	(10)
Dividend paid to owners of the Company	–	–	(12,727)	–	–	–	–	–	–	–	(12,727)	–	(12,727)
Contributions from minority shareholders of subsidiaries (note ii)	–	–	–	–	–	–	–	–	–	–	–	6,598	6,598
Deemed disposal of interest in a subsidiary (note ii)	–	–	–	–	–	–	–	–	–	–	–	12	12
At 31 December 2009	37,872	610	779,617	(2,776)	83,754	–	4,196	33,935	5,429	285,524	1,228,161	41,876	1,270,037

Notes:

(i) 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")) from Wang Sibo and Xia Lianbao, and debit reserve of RMB178,000 was recognised in capital reserve.

(ii) 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 certain independent third parties, under which these new investors agreed to make a cash contribution of RMB6,500,000 in the capital of 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
Profit before tax	**58,289**	64,717
Adjustments for:		
Interest income	**(12,027)**	(22,622)
Finance costs	**58,557**	48,150
Depreciation of property, plant and equipment	**75,601**	50,694
Impairment loss recognised in respect of goodwill	**—**	554
Release of prepaid lease payments	**1,911**	1,865
Loss on disposal of property, plant and equipment	**567**	520
Discount on acquisition of additional interest in a subsidiary	**(699)**	(2,109)
Allowance for inventories	**682**	4,737
Release of deferred income	**(1,925)**	(1,365)
Expense (reversed) recognised in profit or loss in respect of equity-settled share-based payment	**(5,523)**	10,518
Loss on fair value changes of derivative financial instruments	**7,134**	3,997
Deemed disposal of interest in a subsidiary	**12**	—
Operating cash flows before movements in working capital	**182,579**	159,656
Increase in inventories	**(174,601)**	(53,645)
Decrease (increase) in trade receivables	**33,523**	(61,674)
Increase in bills receivable	**(120,863)**	(29,854)
Increase in prepayments and other receivables	**(23,975)**	(782)
Decrease in trade payables	**(15,762)**	(11,409)
Increase in bills payable	**10,000**	—
Increase (decrease) in other payables	**13,787**	(9,894)
Increase in deferred income	**1,006**	1,743
Cash generated from operations	**(94,306)**	(5,859)
Income tax paid	**(7,670)**	(7,282)
Net cash used in operating activities	**(101,976)**	(13,141)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(422,939)**	(620,436)
Prepaid lease payments of land use rights	**(2,337)**	(3,924)
Proceeds on disposal of property, plant and equipment	**853**	610
Acquisition of additional interests in a subsidiary	**(546)**	(5,606)
Deemed disposal of partial interest in a subsidiary	**6,500**	—
Government grants received	**9,260**	19,555
Interest received	**6,899**	21,811
Increase in restricted bank deposits	**(130,771)**	(192,465)
Advance to loans receivable	**—**	(150,000)
Repayment of loans receivable	**40,811**	110,000
Net cash used in investing activities	**(492,270)**	(820,455)
Financing activities		
Proceeds from issue of shares	**—**	41,918
Payment of transaction costs attributable to issue of new shares	**—**	(1,471)
Payment on repurchase of shares	**—**	(11,499)
Capital contribution by minority shareholders of subsidiaries	**98**	415
New borrowings raised	**1,691,371**	1,001,395
Borrowings repaid	**(874,798)**	(684,841)
Increase in discounted bill financing	**82,802**	19,607
Dividends paid to minority shareholders of a subsidiary	**(10)**	—
Interest paid	**(57,674)**	(56,897)
Dividend paid	**(12,727)**	(996)
(Repayment of) advance to a shareholder	**—**	(217)
Net cash generated from financing activities	**829,062**	307,414
Net increase (decrease) in cash and cash equivalents	**234,816**	(526,182)
Cash and cash equivalents at beginning of the year	**122,689**	648,871
Cash and cash equivalents at end of the year, representing bank balances and cash	**357,505**	122,689

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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. In the opinion of the directors, the Company's holding company is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands) and its ultimate holding company is China Sunshine Paper Investments Limited (incorporated in the British Virgin Islands ("BVI")). 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 RMB100,361,000 as at 31 December 2009. The directors are of the opinion that, taking into account the present 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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised 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 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRCI 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendments to IFRSs 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described as below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statement of the Group for the current or prior accounting periods.

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

New and revised IFRSs affecting the presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 6) and changes in the basis of measurement of segment profit or loss.

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)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendments)	Eligible hedged items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for first-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distribution of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

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

New and revised IFRSs affecting the presentation and disclosure only (continued)

[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 or 1 January 2010, as appropriate

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

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 July 2010

[6] Effective for annual periods beginning on or after 1 January 2011

[7] Effective for annual periods beginning on or after 1 January 2013

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the Group's 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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments which are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of comprehensive income 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.

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.

Business combination

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination (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 previously held interest in subsidiaries and carrying values of the underlying assets and liabilities attributable to the previously held interest in subsidiaries is charged directly to capital reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment loss and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On 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.

Deposits and instalments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidation statement of financial position under current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income from a financial asset 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 on initial recognition.

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 including buildings held for use in the production or supply of goods or services, or for administrative purposes 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 includes 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 property 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 profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense 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 over the lease term on a straight-line basis.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the 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 retranslation 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 qualifying assets, 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 profit or loss for the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 profit as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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 taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (continued)

At the end of the reporting period, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vest period, if any, is recognised in profit or loss, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options 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 excluding goodwill

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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. Transaction 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. 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 and other 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, and observable changes in national or local economic conditions that correlate with default on receivables.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables (continued)

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 loss 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.

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, discounted bill financing, trade payables, bills payable, other payables and dividend payable) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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 the end of the reporting period. 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.

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 and the cumulative gain or loss that had been recognised in other comprehensive income 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.

4. 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 2009, the carrying amount of inventories is approximately RMB400,075,000 (2008: RMB226,156,000).

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 may be 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 2009, the aggregate carrying amount of trade, bills, loans and other receivables is approximately RMB702,436,000 (2008: RMB635,761,000). Details of movements of allowance for doubtful receivables are disclosed in Note 20.

5. 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.

6. SEGMENT INFORMATION

(a) Operating segments

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 is a disclosure standard that 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 for the purpose of allocating resources to the segments and assessing 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. In the past, the Group's primary reporting format was business segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has changed to internal reports which are regularly reviewed by the Group's executive directors, who are the chief operating decision maker. 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. The adoption of IFRS 8 has also changed the basis of measurement of segment profit. Previously under IAS 14, paper products as a whole (including white top linerboard, light-coated linerboard, core board and specialized paper products) was defined as one of the two operating divisions of the Group and segment result of paper products represents the operating profit determined by deducting related selling expenses and administative expenses from gross profit earned by paper product segment. Under IFRS 8, the chief operating decision maker makes decision based on information for each of the paper products, i.e. white top linerboard, light-coated linerboard, core board and specialized paper products which constitute significant components for the purpose of resources allocation. As a result, additional operating segments have been identified under IFRS 8. Segment profit of each paper product segment represents gross profit for each of these paper product divisions. Comparative information has been restated to comply with current year requirements.

6. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2009

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	785,518	360,633	357,726	110,916	82,885	1,697,678
Inter-segment revenue	—	—	—	—	238,796	238,796
Segment revenue	785,518	360,633	357,726	110,916	321,681	1,936,474
Segment profit	110,208	69,602	38,456	7,789	34,676	260,731

For the year ended 31 December 2008

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	903,466	401,026	227,911	164,404	67,745	1,764,552
Inter-segment revenue	—	—	—	—	195,848	195,848
Segment revenue	903,466	401,026	227,911	164,404	263,593	1,960,400
Segment profit	116,547	68,976	22,107	8,878	8,451	224,959

6. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the gross profit earned by each paper product segment and the profit before tax earned by electricity and steam segment. The Group does not allocate operating expenses and other income to each operating segment under the paper products category and does not allocate the change in fair value of derivative financial instruments to individual operating segment when making decisions about resources to be allocated to the segment and assessing its performance.

A reconciliation of the segment profit to the consolidated profit before taxation is as follows:

	2009 **RMB'000**	2008 RMB'000
Profit		
Segment profit	**260,731**	224,959
Unrealised profit on inter-segment sales	**(42,126)**	(15,985)
	218,605	208,974
Distribution and selling expenses	**(104,460)**	(74,939)
Administrative expenses	**(66,503)**	(70,569)
Other income	**66,196**	46,147
Finance cost	**(48,415)**	(40,899)
Change in fair value of derivative financial instruments	**(7,134)**	(3,997)
Consolidated profit before taxation	**58,289**	64,717

No segment assets and liabilities, and related other segment information were presented as such information are not regularly provided to the chief operating decision maker.

6. SEGMENT INFORMATION (continued)

(b) Information about major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

(c) Geographical information

The Group's operations, assets and substantially all the customers are located in the PRC. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.

7. OTHER INCOME, GAINS AND LOSSES

	2009 **RMB'000**	2008 RMB'000
Exchange gain	**212**	15,619
Discount on acquisition of additional interest in a subsidiary	**699**	2,109
Government grants (note)	**50,814**	1,840
Interest income	**11,216**	13,878
Interest income from loans receivable	**811**	8,744
Sales of materials	**704**	767
Transportation service income	**652**	241
Compensation	**1,676**	2,698
Others	**553**	899
	67,337	46,795

Notes: Pursuant to Cai Shui [2008] No. 157 issued by the Ministry of Finance and the State Administration of Taxation, with effect from 1 January 2009, Changdong Paper Recovery, a subsidiary of the Company, was qualified as ordinary value-added tax payer that sells the renewable resources and is required to settle value-added taxes first before getting tax refund for each of the year ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% of the value-added tax payment on renewable resources sales in 2009; and 50% of the value-added tax payment on renewable resources sales in 2010 would be refunded (in prior year, such subsidiary was not entitled to this tax refund incentive). Changdong Paper Recovery is entitled to this tax refund in the aggregation amount of RMB46,688,000 during the year ended 31 December 2009.

8. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest expenses on:		
Discounted billing financing	5,675	2,774
Bank and other borrowings wholly repayable within five years	66,389	62,636
Bank borrowings not wholly repayable within five years	487	740
	72,551	66,150
Less: Interest capitalised in construction in progress	(13,994)	(18,000)
	58,557	48,150

Borrowing costs capitalised during the year ended 31 December 2009 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.84% (2008: 8.38%) per annum to expenditure on construction in progress.

9. PROFIT BEFORE TAX

	2009 **RMB'000**	2008 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**62,588**	54,836
Retirement benefits schemes contributions	**5,423**	4,413
Equity-settled share-based payment	**(5,523)**	10,518
Total staff costs (including directors emoluments)	**62,488**	69,767
Cost of inventories recognised as an expense	**1,394,077**	1,483,710
Depreciation of property, plant and equipment	**75,601**	50,694
Allowance for inventories	**682**	4,737
Release of prepaid lease payments	**1,911**	1,865
Auditor's remuneration	**1,459**	1,588
Loss on disposal of property, plant and equipment	**567**	520

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

		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 (Note)	Total emoluments RMB'000
2009						
Executive directors:						
Wang Dongxing	200	78	–	–	(767)	(489)
Shi Weixin	50	–	–	–	(767)	(717)
Zhang Zengguo	100	45	5	–	–	150
Wang Yilong	30	–	–	–	–	30
Non-executive directors:						
Xu Fang	50	–	–	–	–	50
Wang Junfeng	50	–	–	–	–	50
Independent non-executive directors:						
Wong Wing Yee	88	–	–	–	–	88
Wang Zefeng	50	–	–	–	–	50
Xu Ye	50	–	–	–	–	50
	668	123	5	–	(1,534)	(738)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

		Other emoluments				
	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Performance related incentive payments	Equity-settled share-based payment	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, included 1 director (2008: 2 directors), details of their emoluments are set out above. The emoluments of the remaining 4 (2008: 3) individuals during the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other allowances	1,150	357
Retirement benefits schemes contributions	16	—
Equity-settled share-based payment (Note)	(1,227)	4,090
	(61)	4,447

The above employees' emoluments were within the following bands:

	Number of individuals	
	2009	2008
Nil to HK$1,000,000	4	—
HK$1,000,001 to HK$1,500,000	—	3

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.

Note: During the year ended 31 December 2009, due to the failure to satisfy the specific vesting conditions in the share option scheme, share option granted to directors and employees were forfeited and related expenses previously recognised in profit or loss was reversed accordingly. Details are set out in Note 33(a).

11. INCOME TAX EXPENSE (CREDIT)

	2009 RMB'000	2008 RMB'000
Current tax		
PRC	**11,570**	4,951
Deferred tax credit (Note 17)	**(744)**	(6,422)
	10,826	(1,471)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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"). 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", 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 takes effect until the initial term expires. 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) ("Century 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, were levied at 12.5% (2008: 12.5%) for the year ended 31 December 2009 based on relevant tax circulars.

11. INCOME TAX EXPENSE (CREDIT) (continued)

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

	2009 RMB'000	2008 RMB'000
Profit before tax	**58,289**	64,717
Tax at the applicable income tax rate of 25% (2008: 25%)	**14,572**	16,179
Effect of tax incentives (Note (a))	**(6,142)**	(13,162)
Tax effect of income not taxable	**(147)**	(872)
Tax effect of expenses not deductible	**8,169**	2,304
Effect of tax concession granted to certain subsidiaries	**(6,131)**	(13,198)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries, (Note (b))	**385**	774
Differential tax rate on temporary difference	**120**	6,504
Tax charge (credit) for the year	**10,826**	(1,471)

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 RMB6,142,000 was utilised for the year ended 31 December 2009 (2008: RMB13,162,000).

(b) Under the New Law, deferred tax liability was recognised 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 thereafter 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 be approximately 20% of the net profit of the PRC subsidiaries generated in each year and deferred tax is provided on this basis.

Details of deferred tax for the year are set out in Note 17.

12. DIVIDEND

	2009 RMB'000	2008 RMB'000
Dividends declared for distribution during the year:		
2008 final dividend — RMB3.2 cents per share (2008: Nil)	12,727	—

A final dividend of RMB2.1 cents per share in respect of the year ended 31 December 2009 (2008: final dividend of RMB3.2 cents per share in respect of the year ended 31 December 2008 was distributed out of the share premium of the Company), based on 401,044,000 shares as at 31 December 2009, has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	42,147	64,356

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	401,044,000	405,998,000

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 years.

14. 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 2008	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
Additions	5,511	20,156	448,948	474,615
Transfers	23,362	274,501	(297,863)	—
Disposals	—	(6,341)	—	(6,341)
At 31 December 2009	**450,938**	**1,151,180**	**483,379**	**2,085,497**
DEPRECIATION				
At 1 January 2008	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
Provided for the year	14,655	60,946	—	75,601
Eliminated on disposals	—	(2,116)	—	(2,116)
At 31 December 2009	**34,071**	**154,371**	**—**	**188,442**
CARRYING AMOUNT				
At 31 December 2009	**416,867**	**996,809**	**483,379**	**1,897,055**
At 31 December 2008	402,649	767,323	332,294	1,502,266

14. 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 36.

15. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**90,650**	90,257
Current assets	**1,969**	1,936
	92,619	92,193

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 36.

16. GOODWILL

	2009 RMB'000	2008 RMB'000
COST		
At beginning and end of the year	**19,246**	19,246
IMPAIRMENT		
At beginning of the year	**554**	—
Impairment loss recognised in the year	**—**	554
At end of the year	**554**	554
CARRYING AMOUNT		
At end of the year	**18,692**	18,692

For the purposes of impairment testing, goodwill as at 31 December 2009 has been allocated to an individual cash generating unit (CGU) of a subsidiary in electricity and steam segment.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

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% (2008: 13%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 5% (2008: 5%). 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 the CGU to exceed the aggregate recoverable amount of the CGU.

17. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Unrealised profit/(loss) in inventories	Allowance for doubtful debts and inventories	Deferred income	Pre-operating expenses	Fair value adjustment on property, plant and equipment	Change in fair value of derivative financial instruments	Undistributed profits of PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	163	147	230	188	(6,207)	–	–	(5,479)
Credited (charged) to profit or loss	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
Credited (charged) to profit or loss	(398)	(1,021)	2,086	–	212	250	(385)	744
At 31 December 2009	**(230)**	**310**	**7,299**	**–**	**(5,782)**	**1,249**	**(1,159)**	**1,687**

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

	2009	2008
	RMB'000	RMB'000
Deferred tax assets	**9,910**	8,672
Deferred tax liabilities	**(8,223)**	(7,729)
	1,687	943

18. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	277,587	152,613
Finished goods	122,488	73,543
	400,075	226,156

Details of inventories pledged are set out in Note 36.

19. LOANS RECEIVABLE

	2009 RMB'000	2008 RMB'000
Loans receivable	—	40,811

The Group granted short-term unsecured entrusted loans to a third party with effective interest rate (which is equal to contractual interest rate) of 10% per annum. Such amount was fully recovered during the year ended 31 December 2009.

20. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2009 RMB'000	2008 RMB'000
Trade receivables due from:		
— Third parties	135,477	168,295
— Related parties (Note 39(b))	2,442	3,147
	137,919	171,442

20. TRADE RECEIVABLES (continued)

Included in the balance of trade receivables above, approximately RMB119,000,000 at 31 December 2009 (2008: RMB97,700,000) was pledged to banks to secure banking facilities granted to the Group (see Note 36).

The Group normally allows a credit period of 30 to 60 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 net of allowance for doubtful debts presented based on delivery date at the end of the reporting period:

	2009	2008
	RMB'000	RMB'000
0–30 days	**97,721**	125,576
31–90 days	**29,024**	34,532
91–365 days	**9,097**	10,948
Over 1 year	**2,077**	386
	137,919	171,442

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 receivables balance are debtors with a carrying amount of approximately RMB39,014,000 (2008: RMB39,097,000) 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.

20. TRADE RECEIVABLES (continued)

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

	2009 RMB'000	2008 RMB'000
31–90 days	**27,840**	27,763
91–365 days	**9,097**	10,948
Over 1 year	**2,077**	386
	39,014	39,097

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 end of the reporting period is of good quality.

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

	RMB'000
At 1 January 2008	885
Written off during the year	—
At 31 December 2008	885
Written off during the year	(43)
At 31 December 2009	842

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.

21. BILLS RECEIVABLE

	2009 RMB'000	2008 RMB'000
Bills receivable	**533,115**	412,252

During the year, the Group has discounted bills receivable of RMB126,606,000 (2008: RMB43,804,000) 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 28 and 36).

Bills receivable of approximately RMB251,524,000 (2008: RMB254,978,000) was endorsed with recourse to third parties at 31 December 2009 and corresponding trade payables of RMB251,524,000 (2008: RMB254,978,000) were included in the consolidated statement of financial position accordingly.

The aged analysis of bills receivable presented based on issue date at the end of the reporting period is as follows:

	2009 RMB'000	2008 RMB'000
0–90 days	**235,493**	222,573
91–180 days	**297,622**	189,679
	533,115	412,252

22. PREPAYMENTS AND OTHER RECEIVABLES

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

	2009	2008
	RMB'000	RMB'000
Prepayments	**918**	784
Other receivables	**31,402**	11,256
Prepayments to suppliers	**24,425**	20,730
	56,745	32,770

An analysis of other receivables is as follows:

	2009	2008
	RMB'000	RMB'000
Value-added tax refund	**22,876**	—
Deposit	**3,750**	459
Advance to employees	**1,921**	3,981
Interest receivable	**1,032**	4,659
Others	**1,823**	2,157
	31,402	11,256

23. 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 2.25% (2008: from 0.36% to 4.14%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

23. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH (continued)

Bank balances carry market interest rate of 0.36% per annum as at 31 December 2009 (2008: 0.36% per annum).

Bank balances and cash at 31 December 2009 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is controlled by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

24. TRADE PAYABLES AND BILLS PAYABLE

An analysis of trade payables is as follows:

	2009 RMB'000	2008 RMB'000
Trade payables to third parties	356,650	375,217

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

The following is an aged analysis of trade payables presented based on material receiving date at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
0–90 days	195,452	194,538
91–365 days	153,284	173,380
Over 1 year	7,914	7,299
	356,650	375,217

All the bills payable are trading nature and will mature within six months.

25. OTHER PAYABLES

An analysis of other payables is as follows:

	2009 **RMB'000**	2008 RMB'000
Other payables	**7,597**	2,396
Advance from customers	**60,711**	28,788
Accrued payroll and welfare	**1,987**	2,204
Other tax payable	**8,347**	22,214
Interest payable	**3,047**	9,253
	81,689	64,855

26. DEFERRED INCOME

Deferred income represents the connection fee income not yet recognised in relation to steam transmission services, the value-added tax refund obtained for the purchase of domestically manufactured equipment and the government grant obtained in relation to the acquisition of land use right.

	Connection fee RMB'000	**Value-added tax refund** RMB'000	**Government grant related with land use right** RMB'000	**Total** RMB'000
At 1 January 2008	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
Additions	1,006	7,667	1,593	10,266
Release to income	(379)	(1,512)	(34)	(1,925)
At 31 December 2009	**3,027**	**24,624**	**1,559**	**29,210**

26. DEFERRED INCOME (continued)

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

	2009 RMB'000	2008 RMB'000
Current portion	**1,925**	1,365
Non-current portion	**27,285**	19,504
	29,210	20,869

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 RMB'000	2008 RMB'000
Assets		
Foreign currency forward contracts (note i)	**—**	2,434
Liabilities		
Foreign currency forward contracts (note i)	**1,950**	6,431
Interest rate swaps (note ii)	**3,048**	—
	4,998	6,431

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes:

(i) During the year, the Group entered into arrangements with various commercial banks in the PRC that the Group borrowed one year US dollar loan (2008: one year US dollar/EURO loan) from these banks for settlement of its US dollar payable (2008: US dollar/EURO payable) to suppliers denominated in US dollar (2008: US dollar/EURO). At the same time, the Group placed one year fixed deposits to the banks as security against the US dollar loans (2008: US dollar/EURO loan), and entered into forward contracts with the banks to purchase US dollars (2008: US dollar/EURO) (equivalent to the US dollar/EURO loans plus interests thereon) by Renminbi at predetermined forward rates (the "Arrangements").

At 31 December 2009, the US dollar loans of RMB136,539,000 (2008: the US dollar loans of RMB55,910,000, the EURO loans of RMB91,740,000) and RMB fixed deposits of RMB139,750,000 (2008: RMB160,691,000) under such Arrangements were included in bank borrowings and restricted bank deposits as disclosed in notes 29 and 23 respectively.

For the Arrangements entered into during the year ended 31 December 2009, the related interest income on the fixed deposits of RMB1,032,000 (2008: RMB4,659,000), exchange loss on US dollar loans of RMB50,000 (2008: exchange gain on US dollar loans of RMB2,204,000, exchange gain on EURO loans of RMB10,837,000) are included in profit or loss, while the interest expenses on US dollar loans of RMB707,000 (2008: on US dollar loans RMB3,236,000, on EURO loans RMB4,444,000) are included in finance cost as disclosed in note 8.

For the Arrangement entered into during the year ended 31 December 2008 which were settled during current year, the related interest income on the fixed deposits of RMB469,000, exchange loss on US dollar loans of RMB2,000, exchange loss on EURO dollar loans of RMB204,000 are included in profit or loss, while the interest expenses on US dollar loans of RMB827,000, the interest expenses on EURO dollar loans of RMB3,323,000 are included in finance costs as disclosed in Note 8.

Major terms of foreign currency forward contracts as at the end of the reporting period are as follows:

Aggregate principal amount	Maturity	Forward exchange rate
2009		
US$19,440,880.30	From May 2010 to December 2010	Buy US$/sell RMB at 6.7824 to 6.8856
2008		
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

At 31 December 2009, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB1,950,000 (2008: 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 were provided by the counterparty financial institutions at the end of the reporting period. The loss on change in fair value of the foreign currency forward contracts amounting to RMB4,086,000 (2008: RMB3,997,000) has been recognised in the profit or loss for the year.

The US dollar loans are of fixed interest rates ranging from 0.91% to 1.98% (2008: from 4.72% to 12.04%) per annum as at 31 December 2009.

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes (continued):

(ii) The Group entered into two interest rate swap contracts during the year ended 31 December 2009 which are not accounted for using hedge accounting. Major terms of the contracts as at 31 December 2009 are as follows:

Notional amount	Maturity	Swaps
US$25,000,000	16 June 2014	From LIBOR to rate floored at 0.00% and capped at 3.5%
US$13,500,000	15 June 2014	From LIBOR to fixed rate of 2.5%

The above contracts are measured at fair value at 31 December 2009. Their fair values are determined based on the valuations provided by the relevant financial institutions at the end of the reporting period. The fair values of interest rate swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts at the end of the reporting period. The loss on change in fair value of the interest rate swap contracts amounting to RMB3,084,000 has been recognised in the profit or loss for the year.

28. DISCOUNTED BILL FINANCING

	2009 **RMB'000**	2008 RMB'000
Discounted bill financing	**126,606**	43,804

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

29. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured bank borrowings	**1,247,197**	618,099
Unsecured bank borrowings	**515,710**	315,400
	1,762,907	933,499
The borrowings are repayable as follows:		
Within one year	**1,152,506**	784,432
In the second year	**170,485**	27,304
In the third to fifth year inclusive	**239,993**	111,511
Over five years	**199,923**	10,252
	1,762,907	933,499
Less: Amount due for settlement within one year and shown under current liabilities	**(1,152,506)**	(784,432)
Amount due after one year	**610,401**	149,067
Total borrowings		
— At fixed rates	**929,350**	594,080
— At floating rates	**833,557**	339,419
	1,762,907	933,499
Analysis of borrowings by currency:		
— Denominated in RMB	**1,318,150**	617,649
— Denominated in United States dollars	**444,757**	224,110
— Denominated in EURO	**—**	91,740
	1,762,907	933,499

29. BANK BORROWINGS (continued)

Fixed-rate borrowings are charged at the rates ranging from 0.91% to 12.04% per annum as at 31 December 2009 (2008: 4.72% to 12.17% 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 3.1% to 3.5% over LIBOR (2008: 1.00% to 3.1% over LIBOR).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2009 was 5.58% per annum (2008: 8.00% per annum).

Details of pledge of assets for the Group's secured bank borrowings are set out in Notes 36.

30. OTHER BORROWINGS

	2009 **RMB'000**	2008 RMB'000
Borrowings from Weifang City Investment Co., Ltd. (濰坊市投資有限公司) ("Weifang Investment")	**17,442**	17,442

Other borrowings are unsecured and the interest is charged at the 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 from 9 July 2007.

The effective weighted average annual rate for the year ended 31 December 2009 was 6.83% per annum (2008: 6.83% per annum).

31. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 2009	1,000,000,000	100,000

	Notes	Number of shares	Share capital	
				Shown in the consolidated financial statements
			HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2008		400,000,000	40,000	37,783
Exercise of over-allotment option	(a)	7,500,000	750	699
Shares repurchased and cancelled	(b)	(6,456,000)	(646)	(610)
At 31 December 2008 and 2009		**401,044,000**	**40,104**	**37,872**

Notes:

(a) 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).

31. SHARE CAPITAL (continued)

Notes (continued):

(b) 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$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	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.

32. 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 includes the contribution from owners of the Company as the result of debts waived by owners of the Company, discount on acquisition of subsidiaries from owners of the Company and debit reserve of additional acquisition of subsidiaries from owners of the Company.

The capital reserve other than those arising from acquisition of subsidiaries from owners 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.

32. 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").

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.

33. 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.

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(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. 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 periods. Also, the grantees must remain in services with the Group until the vesting conditions are finalized.

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

33. 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 2009 is as follows:

		Number of options				
	Exercised price HK$	Outstanding at 1.1.2009	Exercise during the year ended 31.12.2009	Forfeited during the year ended 31.12.2009	Expired during the year ended 31.12.2009	Outstanding at 31.12.2009
Directors	5.40	3,200,000	–	(2,400,000)	(800,000)	–
Senior management	5.40	5,760,000	–	(4,320,000)	(1,440,000)	–
Other employees	5.40	2,560,000	–	(1,920,000)	(640,000)	–
		11,520,000	–	(8,640,000)	(2,880,000)	–
Exercisable at the end of the year						–

33. 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				
	Exercised price HK$	Outstanding at 31.12.2008	Exercise 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.

33. 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 remuneration committee and the directors of the Company continuously monitor the operating and financial targets of the Group and the annual appraisal of the grantees. During the current year, 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.

The Group recognised an expense of RMB10,518,000 for the year ended 31 December 2008 in relation to share options granted by the Company.

33. SHARE-BASED PAYMENT TRANSACTION (continued)

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

34. 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 29, other borrowings disclosed in Note 30 and equity attributable to owner 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 associated 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.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables	1,401,026	991,640
Derivative financial instruments	–	2,434
Financial liabilities		
Liabilities at amortised cost	2,479,025	1,538,922
Derivative financial instruments	4,998	6,431

(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.

35. 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$ as disclosed in Note 27, at the end of the reporting period are as follows:

	2009 RMB'000	2008 RMB'000
Assets		
US Dollars		
Bank balances and cash	**6,489**	3,241
Trade receivables	**2,738**	518
Hong Kong Dollars		
Bank balances and cash	**609**	6,983
EURO		
Bank balances and cash	**2,851**	4,119
Trade receivables	**814**	1

	2009 RMB'000	2008 RMB'000
Liabilities		
US Dollars		
Trade payables	**483,045**	7,022
Advance from customers	**—**	1,353
Bank borrowings	**308,218**	168,200
EURO		
Trade payables	**123**	666

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

As disclosed in Note 27, the principal amounts and maturity terms of the foreign currency loans and forward contracts are similar, and the net exchange gain or loss arising from these instruments is not significant. Accordingly, the 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, and EURO against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in 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 interest rate swap contracts, 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 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.

35. 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	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(a)	(a)	(b)	(b)	(c)	(c)
Increase (decrease) in profit for the year	**39,102**	8,641	**(30)**	(349)	**(177)**	(173)

(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 at year end.

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

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings and discounted bill financing subject to negotiation on annual basis (see Note 28 and Note 29 for details of these discounted bill financing and 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.

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk management (continued)

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see Notes 29 and 30 for details of these borrowings), restricted bank deposits and bank balances and cash (see Note 23). The Group entered into certain interest rate swaps to partially reduce its exposures to variable-rate borrowings.

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 end of the reporting period. 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 end of the reporting period was outstanding for the whole year. A 50 basis points (2008: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 50 basis points (2008: 50 basis points) and all other variables were held constant, the Group's profit would decrease (increase) by approximately RMB648,000 for the year ended 31 December 2009 (2008: RMB5,000).

(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 end of the reporting period, 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 statement of financial position.

35. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

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 the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

(d) Liquidity risk management

The Group had net current liabilities of approximately RMB100,361,000 as at 31 December 2009. 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 2009, the Group had available unutilized short-term bank loan facilities of approximately RMB1,288,272,000 (2008: RMB791,272,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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.

35. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	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 un-discounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2009									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	4.73	–	580,614	351,296	1,188	20,261	–	953,359	929,350
Variable-rate bank borrowings	3.96	–	103,590	173,538	213,663	392,493	53,020	936,304	833,557
Other borrowings	5.40	–	471	17,677	–	–	–	18,148	17,442
Trade payables		161,198	195,452	–	–	–	–	356,650	356,650
Bills payables		–	10,000	–	–	–	–	10,000	10,000
Other payables		12,631	–	–	–	–	–	12,631	12,631
Payable for construction work		86,696	75,735	16,815	11,998	1,545	–	192,789	192,789
Discounted bill financing		–	126,606	–	–	–	–	126,606	126,606
		260,525	1,092,468	559,326	226,849	414,299	53,020	2,606,487	2,479,025
Derivatives – net settlement									
Interest rate swaps		–	–	–	–	3,048	–	3,048	3,048
Foreign exchange forward contracts		–	332	1,618	–	–	–	1,950	1,950
		–	332	1,618	–	3,048	–	4,998	4,998

35. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

	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 un-discounted 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	–	13,853	–	–	–	–	–	13,853	13,853
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
		237,194	815,981	347,064	59,308	122,958	10,569	1,593,074	1,538,922
Derivatives – net settlement									
Foreign exchange forward contracts		–	6,431	–	–	–	–	6,431	6,431

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 end of the reporting period.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(e) Fair value

The fair value of the Group's financial assets and financial liabilities (excluding derivative instruments as disclosed in note 27) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

35. FINANCIAL INSTRUMENTS (continued)

(e) Fair value (continued)

The fair value of derivative instruments is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Foreign currency forward contracts and interest rate swap contracts held at 31 December 2009 are measured using level 2 fair value measurements which are derived from inputs other than quoted prices in active market, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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.

36. PLEDGE OF ASSETS

At the end of the reporting period, 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 end of the reporting period is as follows:

	2009 **RMB'000**	2008 RMB'000
Buildings	**151,256**	182,540
Plant, machinery and equipment	**480,959**	443,111
Prepaid lease payments	**75,472**	37,089
Inventories	**102,191**	30,649
Trade receivables	**119,000**	97,700
Bills receivable	**126,606**	43,804
Restricted bank deposits	**363,961**	232,190
	1,419,445	1,067,083

37. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**895,102**	671,969

38. OPERATING LEASES

The Group as lessee

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases during the year		
Premises	**283**	391

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**77**	210

39. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following significant transactions with its related parties during the year:

	2009 RMB'000	2008 RMB'000
Sales of goods to a minority shareholder of a subsidiary	79,523	65,097

(b) Balances with related parties

	2009 RMB'000	2008 RMB'000
Trade receivable from a minority shareholder of a subsidiary	2,442	3,147

(c) Compensation of key management personnel

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

	2009 RMB'000	2008 RMB'000
Short term employee benefit	2,746	2,338
Retirement benefit scheme contributions	30	26
Equity-settled share-based payment	—	10,518
	2,776	12,882

40. 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.

41. PARTICULARS OF SUBSIDIARIES

The particulars of subsidiaries of the Company as at the end of the reporting period 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 2009	2008	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

41. PARTICULARS OF SUBSIDIARIES (continued)

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 2009	2008	Principal activity
Hong Kong Hao Mai Trading Co., Ltd. 香港豪邁貿易有限公司 (note i)	Private limited company	Hong Kong	HKD1,000	**100.00%**	–	Trading
山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) (note ii)	Sino-foreign equity joint venture	PRC	USD33,404,500	**99.90%**	99.90%	Manufacture of paper products
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%**	100.00%	Manufacture of paper products
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	**99.00%**	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 equity joint 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	**86.00%**	100.00%	Waste paper trading

41. PARTICULARS OF SUBSIDIARIES (continued)

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 2009	Attributable equity interest held by the Company 2008	Principal activity
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%**	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%**	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%**	100.00%	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

Note:

(i) Newly incorporated during the year ended 31 December 2009.

(ii) Originally known as 昌樂世紀陽光紙業有限公司 (Changle Century Sunshine Paper Co., Ltd).

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:

	2009 **RMB'000**	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Results					
Revenue	**1,697,678**	1,764,552	1,411,681	613,367	447,277
Profit before taxation	**58,289**	64,717	145,562	56,092	42,559
Taxation	**(10,826)**	1,471	(8,292)	(5,932)	(914)
Minority interests	**(5,316)**	(1,832)	4,269	(220)	806
Profit attributable to shareholders	**42,147**	64,356	133,001	49,940	42,451
Assets					
Non-current assets	**2,016,307**	1,619,887	999,696	505,186	248,625
Current assets	**1,851,289**	1,243,680	1,392,854	436,924	312,601
Total assets	**3,867,596**	2,863,567	2,392,550	942,110	561,226
Liabilities					
Non-current liabilities	**645,909**	193,742	157,929	—	(56,900)
Current liabilities	**1,951,650**	1,434,356	1,096,466	(761,839)	(378,957)
Total liabilities	**2,597,559**	1,628,098	1,254,395	(761,839)	(435,857)
Equity and reserves					
Total equity	**1,270,037**	1,235,469	1,138,155	180,271	125,369
Minority interests	**(41,876)**	(31,205)	(37,535)	(8,638)	(12,109)
Capital and reserves attributable to the Company's equity holders	**1,228,161**	1,204,264	1,100,620	171,633	113,260

Notes:

1. The Company was incorporated on 22 August 2007 in the 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.