China Sunshine Paper Holdings Company Limited

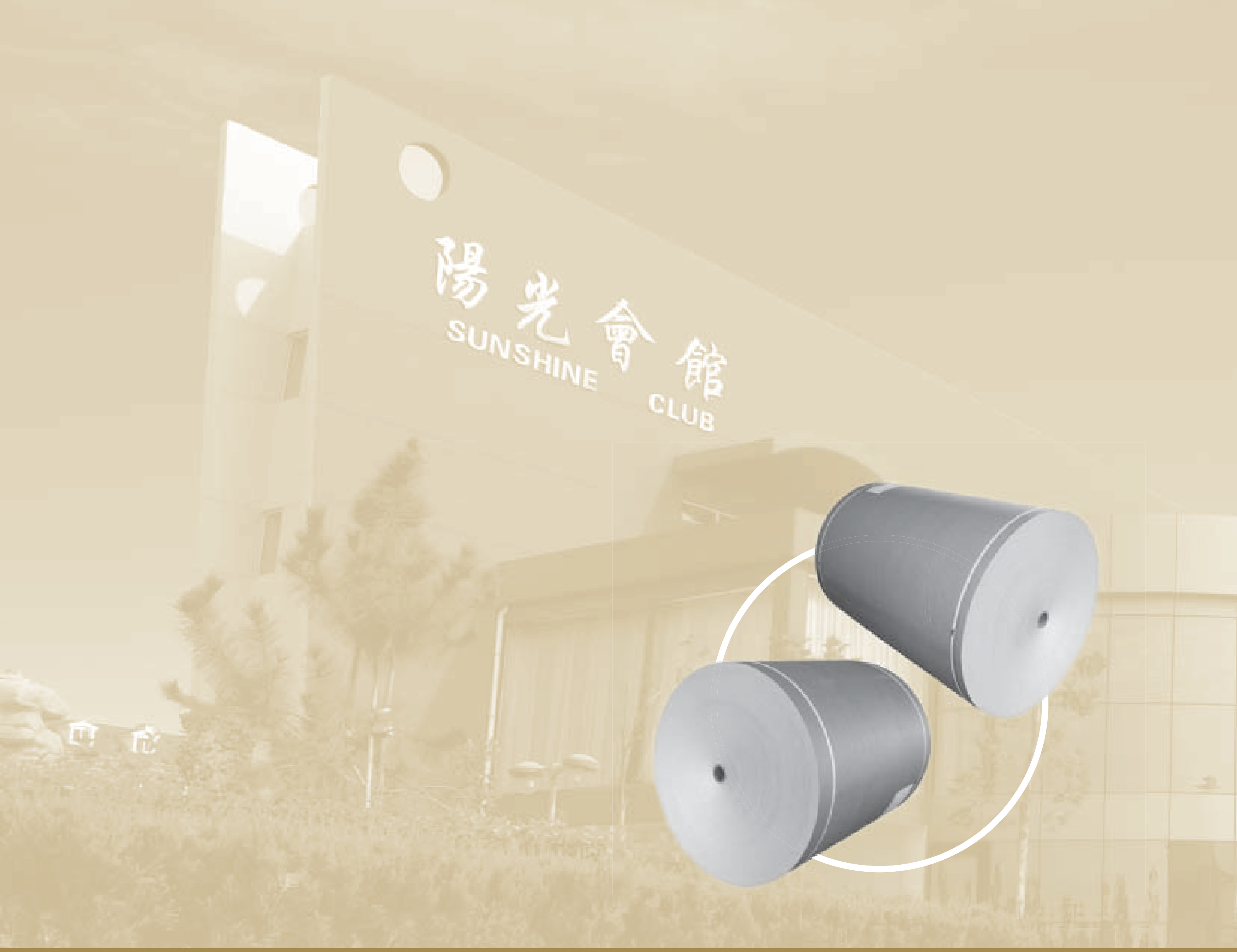
中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2002

2010 Interim Report

*For identification purposes only

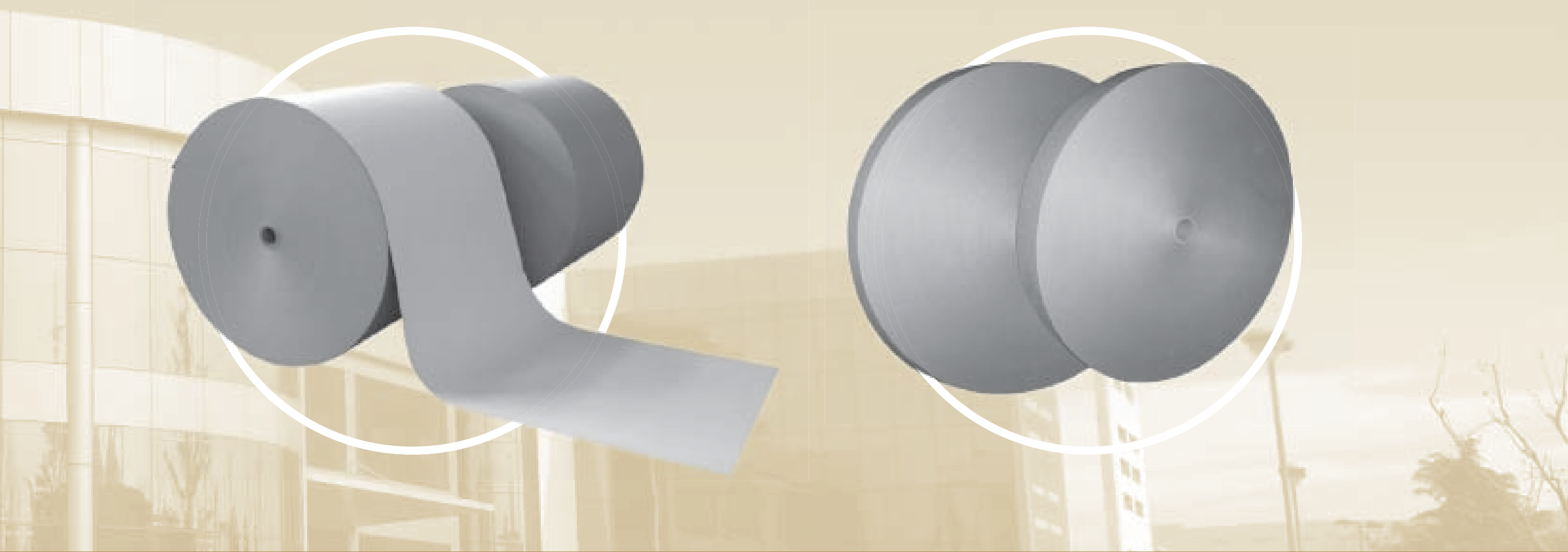


Main Products

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

2010 Interim Report

Table of Content

Corporate Information

Board of Directors

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

Non-Executive Directors
Mr. Wang Junfeng
Mr. Xu Fang

Independent Non-Executive Directors
Mr. Wang Zefeng
Ms. Wong Wing Yee, Jessie
Mr. Xu Ye

Audit Committee

Ms. Wong Wing Yee, Jessie *(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

Cayman Islands Share Registrar and Transfer Office

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

Corporate Information

Hong Kong 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 as to Hong Kong Law

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

Stock Code

2002

Website

www.sunshinepaper.com.cn

Business Review

Operation

With the economic stimulus measures and other local policies on stimulation of domestic consumption implemented by the PRC government, the packaging paper industry began to pick up at a fast pace in 2010. Leveraging on the Group's improved operational efficiency, expanded marketing and distribution network and optimized cost structure, the Group's operating results for the first half of 2010 was boosted as a result of an increase in its profit margins and the business returned to a sustainable growth track.

As at 30 June 2010, the Group operated four production lines with a designed annual production capacity of approximately 650,000 tonnes, comprising 330,000 tonnes white top linerboard and light coated linerboard, 260,000 tonnes core board and 60,000 tonnes specialized paper. The Group attained a utilization rate of over 90% for its production lines for the first half of 2010.

The installation of the fifth production line ("PL 5") with a designed annual production capacity of approximately 500,000 tonnes white top linerboard and light coated linerboard is currently underway and is expected to commence its commercial production in October 2010. By then, the Group's total designed annual production capacity will reach approximately 1,150,000 tonnes.

Production line	**Location**	**Products**	**Designed annual production capacity (tonnes)**
PL 1	Weifang	White top linerboard	110,000
PL 2	Weifang	White top linerboard and light-coated linerboard*	220,000
PL 3	Weifang and Kunshan	Specialized paper products	60,000
PL 4	Weifang	Core board	260,000
Sub-total for existing production lines			650,000
PL 5#	Weifang	White top linerboard and light-coated linerboard*	500,000
Total			1,150,000

* *Production of white top linerboard and light-coated linerboard is interchangeable for these production lines.*

\# *PL 5 is expected to commence its production in October 2010.*

PL 5 will consume a significant amount of electricity and steam for its operation. Accordingly, the Group has already built a new power and steam generation plant to provide a secured, stable and low-cost power and steam for the operation of PL 5. It is estimated that over 90% of power and steam required for the Group's daily operation will be supplied by its self-operated power and steam generation plants.

In addition, in order to meet the increasing consumption of recovered paper, the Group has established a subsidiary in the United States with the aim of purchasing overseas recovered paper at bulk quantity at a lower price. Meanwhile, the Group will continue to consolidate and develop its domestic recovered paper collection bases spanning across China to secure the supply of the domestic recovered paper.

Business Review

Outlook

Various market data and indicators revealed that the domestic consumption segments, especially food and beverages industries in which our key customers operate, has shown noticeable signs of recovery from the financial tsunami. Therefore, the management of the Group is of the view that the packaging paper industry is expected to grow at a fast pace in the next few years. PL 5 is set to capture the business opportunities of the growing demand for packaging paper, especially high-end environmental friendly packaging paper light-coated linerboard, and to position the Group for a larger market share.

Raw materials price is expected to fluctuate at a high-price range in the second half of 2010. However, the stable supply of recovered paper at a lower cost sourced by the Group's subsidiary in the United States and its domestic recovered paper collection bases, as well as adjustment on its raw material mix will enable the Group to minimize the negative impact of high raw materials price.

Looking forward, with the commencement of the production of PL 5 in October 2010, the Group is at a prime position to address the market demand for high-end packaging paper while enhancing the Group's profit margin. It also enables the Group to further increase its market share in packaging paper in a relatively short period of time. The Group is confident that its competitive edge will enable it to maintain its success in this industry.

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

Management Discussion and Analysis

Sales of paper products

For the six months ended 30 June 2010 ("1H 2010"), the Group's revenue on sales of paper products was RMB1,005.7 million, representing an increase of approximately 38.3% as compared to RMB727.3 million for the corresponding period in 2009 ("1H 2009"). Sales volume of the Group's paper products reached approximately 290,000 tonnes for 1H 2010 as compared to approximately 270,000 tonnes for 1H 2009. The average selling price ("ASP") for each of the Group's core paper products, namely white top linerboard, light-coated linerboard and core board, were approximately RMB3,800 per ton, RMB4,000 per ton and RMB2,330 per ton, respectively, representing an increase of approximately 18.0%, 21.0% and 22.0%, respectively, as compared to that of 1H 2009.

Sales of raw materials, electricity and steam

The core business of the Group remained the manufacturing and sales of paper products. Sales of electricity and steam were mainly made to a minority shareholder of a subsidiary of the Group. The Group's revenue on sales of electricity and steam for 1H 2010 was RMB50.6 million (1H 2009: RMB42.1 million), accounting for an approximately 4.6% (1H 2009: approximately 5.5%) of the Group's total revenue.

Revenue of RMB33.2 million on sales of raw materials for 1H 2010 was primarily generated from the resale of blenched hardwood kraft pulp purchased by the Group during the financial tsunami period.

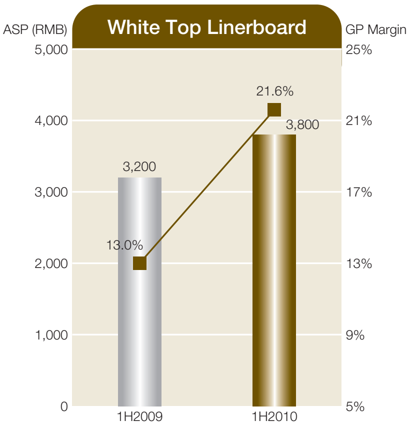
Management Discussion and Analysis

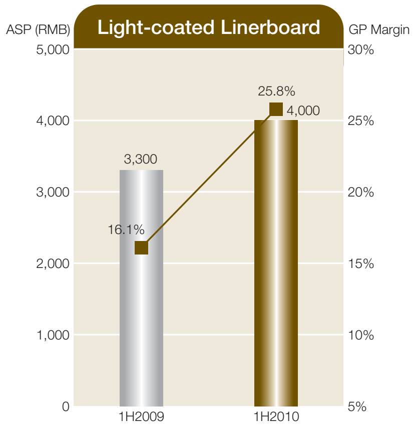
The following table sets out the sales and gross profit margin by different business segments.:

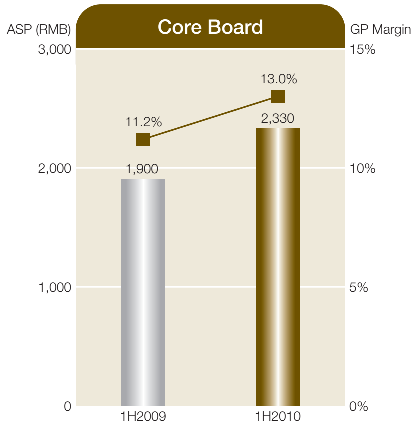
	1H 2010 RMB'000	1H 2010 Gross profit margin (%)	1H 2010 %	1H 2009 RMB'000	1H 2009 Gross profit margin (%)	1H 2009 %
White top linerboard	**422,306**	**21.6**	**38.8**	350,963	13.0	45.6
Light-coated linerboard	**287,000**	**25.8**	**26.3**	166,115	16.1	21.6
Core board	**204,742**	**13.0**	**18.8**	168,019	11.2	21.8
Specialized paper products	**91,690**	**11.0**	**8.4**	42,218	7.2	5.5
Subtotal for sales of paper products	**1,005,738**	**20.1**	**92.3**	727,315	12.9	94.5
Sales of raw materials	**33,173**	**29.0**	**3.1**	—	—	—
Sales of electricity and steam	**50,596**	**10.5**	**4.6**	42,111	14.7	5.5
Total revenue of the Group	**1,089,507**	**19.9**	**100.0**	769,426	13.0	100.0

China continued to be the Group's principal market. Sales made to China accounted for approximately 99.5% of the Group's total sales in 1H 2010 (1H2009: 99.3%).

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







Management Discussion and Analysis

Cost of sales

Cost of sales mainly comprised raw materials cost, labour cost and manufacturing overheads, which mainly included depreciation, energy cost, consumables and other overhead related expenses.

Raw materials cost was the largest component of the cost of sales and represented approximately 75.2% of the cost of sales for 1H2010 (73.3% for 1H 2009). Raw materials cost for 1H 2010 was RMB655.6 million, representing approximately 33.7% increase as compared to RMB490.4 million for 1H 2009. The increase in raw material costs was generally in line with the increase in sales of paper products.

Approximately two-third of the Group's recovered paper consumed was purchased in China ("domestic recovered paper") and the reminder was primarily sourced from the United States ("overseas recovered paper"). Around 40% of the domestic recovered paper was sourced from the Group's domestic recovered paper collection bases.

Manufacturing overhead for 1H2010 was RMB197.8 million, representing approximately 20.0% of increase as compared to RMB164.7 million for 1H 2009. The increase in manufacturing overhead primarily resulted from the increase in electricity and steam expenses, which were in line with the increase in the production volume of the Group.

The following table sets out the breakdown of the cost of sales for 1H 2010 and 1H 2009:

	1H 2010		**1H 2009**	
	RMB'000	**%**	**RMB'000**	**%**
Raw materials cost				
Domestic recovered paper	**331,994**	**38.1**	175,906	26.3
Overseas recovered paper	**126,337**	**14.5**	111,140	16.6
Kraft pulp	**93,443**	**10.7**	81,484	12.2
Chemicals and others	**103,785**	**11.9**	121,849	18.2
	655,559	**75.2**	490,379	73.3
Labour costs	**18,932**	**2.2**	14,013	2.1
Overhead costs	**197,820**	**22.6**	164,704	24.6
Total	**872,311**	**100.0**	669,096	100.0

Gross profit and gross profit margin

As a result of the increase in the ASP of the paper products and the success in stringent cost control, the Group's gross profit increased by RMB116.9 million to RMB217.2 million for 1H 2010. The gross profit margin for the sales of paper products, raw materials, and electricity and steam were 20.1%, 29.0% and 10.5%, respectively, for 1H 2010, as compared to 12.9%, nil and 14.7%, respectively for 1H 2009. It was noticeable that the gross profit margin of light-coated linerboard, the Group's key product with enormous market potential, reached its historical high of 25.8% in 1H 2010 as compared to 16.1% in 1H 2009.

Management Discussion and Analysis

Other profit and loss items

Other income mainly comprised interest income of RMB12.5 million, government grants of RMB24.5 million, mainly relating to the valued-added tax refund for the purchase of domestic recovered paper.

Selling and distribution expenses primarily consisted of transportation cost, advertising and staff costs. Selling and distribution expenses recorded an increase of approximately 17.2% from 54.1 million for 1H 2009 to 63.4 million for 1H 2010, which was driven by the increase in the sale volume of paper products. Despite the increase in the absolute amount of the selling and distribution expenses for 1H 2010, as a percentage of the total revenue, the selling and distribution expenses fell from 7.0% in 1H 2009 to 5.8% in 1H 2010.

Administrative expenses increased from RMB32.9 million for 1H 2009 to RMB49.5 million for 1H 2010. It was mainly driven by (i) the increase in the number of administrative staff and their related expenses for PL 5, and (ii) an one-off write back of share option expenses of RMB5.5 million for 1H 2009.

Finance costs were RMB46.9 million and RMB26.8 million, respectively, for 1H 2010 and 1H 2009. The increase in finance cost primarily resulted from the increase in bank borrowings to finance the construction of PL 5.

Income tax

Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine"), a dominant subsidiary whose principal business activities are manufacturing and trading of paper products, continues to enjoy preferential tax reductions and exemptions of "two-year tax exemption followed by three-year 50% tax reduction" and is levied at 12.5% for the calendar year of 2010.

Income tax expenses for 1H 2010 was RMB9.9 million, representing an increase of 125.0% as compared to RMB4.4 million for 1H 2009. Despite the increase in the absolute amount of income tax expenses, the effective income tax rate for 1H 2010 was only 11.2%, compared to 26.7% for 1H 2009.

Net profit margin and net profit attributable to the owners of the Company

As a result of the factors discussed above, the net profit margin of the Group increased from 1.6% for 1H 2009 to 7.2% for 1H 2010. Net profit attributable to the owners of the Company for 1H 2010 increased by RMB66.7 million or nearly 6.6 times to RMB76.8 million as compared to RMB10.1 million for 1H 2009.

Liquidity and Financial Resources

During 1H 2010, the Group has taken several measures to improve its operating cash flow and to strengthen its liquidity position, and such measures include maintaining adequate level of inventories, enforcing the credit policy of accounts receivable strictly, adjusting the mix of short term and long-term bank borrowings, and negotiating long-term syndicated loans for capital expenditures.

Management Discussion and Analysis

Inventories slightly increased to RMB409.4 million as at 30 June 2010, as compared to RMB400.0 million as at 31 December 2009. Inventories mainly comprised raw materials of RMB264.2 million (31 December 2009: RMB277.6 million) and finished goods of RMB145.2 million (31 December 2009: RMB122.4 million). The number of inventory turnover days was 85.6 for 1H 2010, as compared to 100 for the fiscal year 2009. Trade receivables increased from RMB137.9 million as at 31 December 2009 to RMB182.9 million as at 30 June 2010. The number of trade receivable turnover days for 1H 2010 was 30.6, which was comparable to 29.7 for the fiscal year 2009 and in line with the Group's average credit period of 30 day given to its customers.

The Group generally finances its operation with its internally generated cash flow and credit facilities provided by its principal bankers. The operating cash inflow for 1H 2010 was RMB21.2 million, comparing to an operating cash outflow of RMB13.0 million for 1H 2009. As at 30 June 2010, the Group had bank balances and cash of RMB235.0 million, and restricted bank deposits of RMB414.6 million. The total of bank borrowings and other borrowings of the Group, which were mainly secured by guarantees and assets of the Group, was RMB2,436.3 million. The Group's net borrowings (total borrowings net of bank balances and cash, and restricted bank deposits) over total equity (the "net gearing ratio") and net borrowings over total assets were 132.3% and 35.8%, respectively, as at 30 June 2010, which was higher than 83.4% and 27.4%, respectively as at 31 December 2009. The increase in these two ratios was primary due to the increase in bank borrowings to finance the construction of PL 5.

As at 30 June 2010, the Group had net current liabilities of RMB502.0 million, compared to RMB100.4 as at 31 December 2009. The increase in net current liabilities mainly resulted from the increase in bank borrowings of RMB246.0 million, and payables for construction work, machinery and equipment of RMB164.8 million in relation to PL 5.

Notwithstanding the sharp increase in net current liabilities and net gearing ratio as at 30 June 2010, the Group possesses sufficient financial resources to meet its capital expenditure, debt repayment and working capital requirements. Besides the bank balances and cash of RMB235.0 million, restricted bank deposits of RMB414.6 and other current assets of RMB1,430.4 million, the Group had over RMB1,300 million unutilized banking facilities as at 30 June 2010. To resume a strong and solid financial ratio is a key mission for the Group's financial management in forthcoming years. Except PL 5 which will double the Group's production capacity by end of 2010, the Group currently has no other expansion plan to increase its paper production capacity. The Group endeavors to utilize the strong operating cash inflow generated from PL 5 to repay its bank borrowings and to restructure the mix of short-term and long-term bank borrowings, with the objective to improve its financial ratio.

The Group's transaction and monetary assets are mainly dominated in Renminbi. Most of the Group's monetary liabilities are also denominated in Renminbi, with the exception of some foreign currency bank borrowings amounting to RMB416.9 million as at 30 June 2010. To hedge foreign currency and interest rate exposures, the Group has entered into certain foreign currency forward contracts and interest rate swap contracts with various commercial banks.

Management Discussion and Analysis

Capital expenditure

During 1H 2010, the Group spent approximately RMB33.3 million to enhance the productivity of existing plant and equipment. Meanwhile, approximately RMB885.7 million has been incurred for the construction of PL 5.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB305.9 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 30 June 2010. The Group had no material contingent liabilities as at 30 June 2010.

Use of net proceeds from the Company's IPO

As at 30 June 2010, all proceeds from the Company's initial public offering have been utilized in the manner as set out in to the Company's prospectus dated 29 November 2007.

Corporate Governance and Other Information

Corporate Governance Practices

The Company is committed to achieve a high standard 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 1H 2010, 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 Century Sunshine, a principal operating subsidiary of the Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, the Board considers that it is in the interest of the Group and the shareholders as a whole for him to be given the overall management responsibility of the Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to the Company at this stage and believes such arrangement will maximise operation efficiency and will not result in any material adverse impact to the quality of operation and management of the Company.

Model Code for Securities Transactions By The Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code during the 1H 2010.

Audit Committee

The Company has established an audit committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and to provide advice and comments to the Board. The audit committee consists of the three independent non-executive Directors, namely Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie is the chairman of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim results for the 1H 2010 and discussed the financial matters with management. The unaudited condensed consolidated financial statements of the Group for 1H 2010 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

Corporate Governance and Other Information

Employees and Remuneration Policies

The Group had approximately 3,300 employees as at 30 June 2010. The staff costs for 1H 2010 were RMB33.6 million (1H2009: RMB28.0 million). The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to set performance based remuneration which reflects market standards. Employee's remuneration packages are generally determined based on 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 in the market and the direction of the Group's business development, so as to achieve the Group's operational targets.

Dividend

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

Directors' Interests in Securities

As at 30 June 2010, 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	Interest in controlled corporation(1)	172,693,526	43.06%
Mr. Shi Weixin	Interest in controlled corporation(1)	172,693,526	43.06%
Mr. Zhang Zengguo	Interest in controlled corporation(1)	172,693,526	43.06%
Mr. Wang Yilong	Interest in controlled corporation(1)	172,693,526	43.06%

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 (as defined below). 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 172,693,526 shares held by China Sunrise.

Corporate Governance and Other Information

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

So far as the Directors are aware, as at 30 June 2010, 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	172,693,526	43.06%
China Sunshine[1]	Long	Interest in controlled corporation	172,693,526	43.06%
Controlling Shareholder Group[2]	Long	Interest in controlled corporation	172,693,526	43.06%
SOF (I) Paper	Long	Beneficial interest	43,915,622	10.95%
SOF (I)[3]	Long	Interest in controlled corporation	43,915,622	10.95%
Seabright Asset Management Limited[4]	Long	Interest in controlled corporation	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	Interest in controlled corporation	45,273,837	11.29%
LC Fund III GP Limited[8]	Long	Interest in controlled corporation	45,273,837	11.29%
Right Lane Limited[9]	Long	Interest in controlled corporation	45,273,837	11.29%
Legend Holdings Limited[10]	Long	Interest in controlled corporation	45,273,837	11.29%
The Employees' Shareholding Society of Legend Holdings Limited[11]	Long	Interest in controlled corporation	45,273,837	11.29%
The Chinese Academy of Sciences Holdings Co., Ltd.[11, 12]	Long	Interest in controlled corporation	45,273,837	11.29%

Notes:

1. As China Sunrise is wholly owned by China Sunshine, China Sunshine is deemed to be interested in the 172,693,526 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 172,693,526 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.

Corporate Governance and Other Information

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 30 June 2010.

Share Options Granted to Other Eligible Participants

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

	Number of share options					
Date of Grant	**As at 1 January 2010**	**Granted during the period**	**Exercised during the period**	**Forfeited during the period**	**As at 30 June 2010**	**Exercise period**
8 April 2010	—	400,000	—	—	400,000	(i)
8 April 2010	—	400,000	—	—	400,000	(ii)
8 April 2010	—	400,000	—	—	400,000	(iii)
8 April 2010	—	400,000	—	—	400,000	(iv)

Notes:

(i) From 1 July 2010 to 31 December 2011

(ii) From 1 July 2011 to 31 December 2012

(iii) From 1 July 2012 to 31 December 2013

(iv) From 1 July 2013 to 31 December 2014

Report on Review of Interim Financial Information

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 17 to 36, which comprises the condensed consolidated statement of financial position of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting"("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 August 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
Revenue	4	**1,089,507**	769,426
Cost of sales		**(872,311)**	(669,096)
Gross profit		**217,196**	100,330
Other income		**47,585**	33,166
Other expense		**(8,917)**	(3,145)
Selling and distribution expenses		**(63,407)**	(54,103)
Administrative expenses		**(49,548)**	(32,890)
Change in fair value of derivative financial instruments	12	**(7,564)**	(189)
Finance costs		**(46,924)**	(26,765)
Profit before tax	5	**88,421**	16,404
Income tax expenses	6	**(9,907)**	(4,371)
Profit and total comprehensive income for the period		**78,514**	12,033
Profit and total comprehensive income attributable to:			
Owners of the Company		**76,781**	10,141
Non-controlling Interests		**1,733**	1,892
		78,514	12,033
Earnings per share	8		
— Basic and diluted		**RMB0.19**	RMB0.03

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**2,772,566**	1,897,055
Prepaid lease payments		**106,236**	90,650
Goodwill		**18,692**	18,692
Deferred tax assets		**11,318**	9,910
		2,908,812	2,016,307
Current assets			
Prepaid lease payments		**2,168**	1,969
Inventories		**409,394**	400,075
Trade receivables	10	**182,913**	137,919
Bills receivable	10	**679,204**	533,115
Prepayments and other receivables		**156,691**	56,745
Restricted bank deposits		**414,647**	363,961
Bank balances and cash		**234,997**	357,505
		2,080,014	1,851,289
Current liabilities			
Trade payables	11	**446,046**	356,650
Bills payables	11	**68,238**	10,000
Other payables		**90,076**	81,689
Payable for construction work, machinery and equipment		**357,603**	192,789
Income tax payable		**11,982**	7,045
Dividend payable		**20**	—
Deferred income — current portion		**1,020**	1,925
Derivative financial instruments	12	**12,266**	4,998
Discounted bill financing	13	**178,342**	126,606
Bank borrowings — due within one year	14	**1,398,487**	1,152,506
Other borrowings — due within one year		**17,915**	17,442
		2,581,995	1,951,650
Net current liabilities		**(501,981)**	(100,361)
Total assets less current liabilities		**2,406,831**	1,915,946

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Capital and reserves			
Share capital	15	**37,872**	37,872
Reserves		**1,259,063**	1,190,289
Equity attributable to owners of the Company		**1,296,935**	1,228,161
Non-controlling interests		**53,104**	41,876
Total equity		**1,350,039**	1,270,037
Non-current liabilities			
Bank borrowings — due after one year	14	**1,019,890**	610,401
Deferred income — non-current portion		**28,331**	27,285
Deferred tax liabilities		**8,571**	8,223
		1,056,792	645,909
Total equity and non-current liabilities		**2,406,831**	1,915,946

The interim financial report on pages 17 to 36 were approved by the board of directors on 30 August 2010 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Shi Weixin
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009 (audited)	37,872	610	792,344	(2,776)	83,754	12,119	4,196	30,506	5,429	240,210	1,204,264	31,205	1,235,469
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	–	10,141	10,141	1,892	12,033
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	6,568	6,568
Recognition of equity-settled share-based payment	–	–	–	–	–	(5,523)	–	–	–	–	(5,523)	–	(5,523)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(10)	(10)
Dividend paid to owners of the Company	–	–	(12,727)	–	–	–	–	–	–	–	(12,727)	–	(12,727)
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	12	12
At 30 June 2009 (unaudited)	37,872	610	779,617	(2,776)	83,754	6,596	4,196	30,506	5,429	250,351	1,196,155	39,667	1,235,822
At 1 January 2010 (audited)	**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**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**76,781**	**76,781**	**1,733**	**78,514**
Capital contribution by non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,000**	**10,000**
Acquisition of additional interest in a subsidiary *(note)*	**–**	**–**	**–**	**–**	**(15)**	**–**	**–**	**–**	**–**	**–**	**(15)**	**(485)**	**(500)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**405**	**–**	**–**	**–**	**–**	**405**	**–**	**405**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Dividend paid to owners of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,397)**	**(8,397)**	**–**	**(8,397)**
At 30 June 2010 (unaudited)	**37,872**	**610**	**779,617**	**(2,776)**	**83,739**	**405**	**4,196**	**33,935**	**5,429**	**353,908**	**1,296,935**	**53,104**	**1,350,039**

Note: In February 2010, the Company acquired additional interests of 1% in 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd) ("Changdong Paper Recovery") from one of its non-controlling shareholders with the consideration of RMB500,000. Upon the completion of the transaction, the Company's interests in Changdong Paper Recovery increased from 86% to 87% accordingly.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
Net cash from (used in) operating activities	**21,218**	(13,014)
Investing activities		
Purchase of property, plant and equipment	**(736,863)**	(138,722)
Prepaid lease payments of land use rights	**(16,824)**	(1,538)
Proceeds on disposal of property, plant and equipment	**1,735**	742
Deemed disposal of partial interest in a subsidiary	**—**	6,500
Interest received	**12,847**	8,476
(Increase) decrease in restricted bank deposits	**(50,686)**	2,543
Decrease in loans receivable	**—**	40,811
Government grants received	**1,161**	6,510
Net cash used in investing activities	**(788,630)**	(74,678)
Financing activities		
Additional acquisition of a subsidiary	**(500)**	—
Capital contribution by non-controlling shareholders of subsidiaries	**10,000**	68
New borrowings raised	**1,313,103**	550,929
Borrowings repaid	**(657,160)**	(625,404)
Increase in discounted bill financing	**51,736**	194,287
Dividends paid to owners of the Company	**(8,397)**	(12,727)
Dividends paid to non-controlling shareholders of a subsidiary	**—**	(10)
Interest paid	**(63,878)**	(24,072)
Net cash from financing activities	**644,904**	83,071
Net decrease in cash and cash equivalents	**(122,508)**	(4,621)
Cash and cash equivalents at beginning of the period	**357,505**	122,689
Cash and cash equivalents at end of the period	**234,997**	118,068

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

The Group has net current liabilities of approximately RMB501,981,000 as at 30 June 2010. The directors are of the opinion that, taking into account the present available banking facilities of approximately RMB1,358,901,000 (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 interim financial information has been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRS") which are effective for the Group's financial year beginning on 1 January 2010.

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 3 (Revised 2008) Business Combinations — continued

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised) and the consequential amendments to the other HKFRSs are applicable.

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the additional acquisition during the period of the Group's interests in a subsidiary, Changdong Paper Recovery, the impact of the change in policy has been that the difference of RMB15,000 between the consideration paid and the decrease in the carrying amount of the non-controlling interests has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in goodwill. Therefore, the change in accounting policy has resulted in a decrease in goodwill for the period of RMB15,000. In addition, cash consideration of RMB500,000 paid to the non-controlling shareholders is presented as cash flow used in financing activities.

Except as described above, the application of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. PRINCIPAL ACCOUNTING POLICIES — continued

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements — continued

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

IFRSs (Amendments)	Improvements to IFRSs May 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Right Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopter[3]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 February 2010

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

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 January 2013

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Company's senior executive management, in order to allocate resources to segments and to assess their performance.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

4. SEGMENT INFORMATION — continued

(a) Segment result

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

Six months ended 30 June 2010

	Paper products						
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Sales of raw materials RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	**422,306**	**287,000**	**204,742**	**91,690**	**33,173**	**50,596**	**1,089,507**
Inter-segment revenue	**—**	**—**	**—**	**—**	**—**	**126,549**	**126,549**
Segment revenue	**422,306**	**287,000**	**204,742**	**91,690**	**33,173**	**177,145**	**1,216,056**
Segment profit	**94,969**	**74,930**	**22,394**	**9,824**	**9,642**	**8,423**	**220,182**

Six months ended 30 June 2009

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

4. SEGMENT INFORMATION — continued

(b) Reconciliations of reportable segment profit

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Profit		
Reportable segment profit	**220,182**	107,930
Unrealized profit on intragroup sales	**(13,028)**	(16,650)
	207,154	91,280
Selling and distribution expenses	**(63,407)**	(54,103)
Administrative expense	**(43,735)**	(28,710)
Other income	**45,060**	33,037
Other expense	**(8,917)**	(3,095)
Finance cost	**(40,170)**	(21,816)
Change in fair value of derivative financial instruments	**(7,564)**	(189)
Consolidated profit before taxation	**88,421**	16,404

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Depreciation of property, plant and equipment	**40,149**	34,830
Government grants (note)	**(24,508)**	(22,686)
Interest income	**(12,847)**	(7,140)
Release of prepaid lease payments	**1,039**	947
Loss on disposal of property, plant and equipment	**1,597**	650
(Reversal of) allowance for bad debts	**(580)**	(3,918)
Exchange gain	**(416)**	(296)
Exchange loss	**119**	224

Note: Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the value-added tax policies on renewable resources (Cai Shui [2008] No. 157), which took effect from 1 January 2009, Changle Changdong Waste Paper Recovery Co., Ltd. ("Changdong Paper Recovery"), a subsidiary of the Company that engages in renewable resources business, is qualified as an ordinary value-added tax payer and is required to settle value-added taxes prior to getting tax refund for each of the year ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% and 50%, respectively, of the value-added tax payment on renewable resources sales made by Changdong Paper Recovery in 2009 and 2010 shall be refunded. Changdong Paper Recovery is entitled to RMB22,077,000 of tax refund (six months ended 30 June 2009: RMB21,443,000) during the period.

6. INCOME TAX EXPENSES

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**10,967**	3,539
Deferred tax (credit) charge	**(1,060)**	832
Charge for the period	**9,907**	4,371

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

6. INCOME TAX EXPENSES — continued

In 2008, the Ministry of Finance and the State Administration of Taxation issued several tax circulars which clarify the implementation of the New Enterprise Income Tax Law and which have an impact on foreign investment enterprises. 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" will continue to enjoy preferential treatment for their initial term as prescribed under the previous tax laws, administrative regulations and related documents after the New Law take effect until the initial term expires. 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) and 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.), the PRC subsidiaries of the Company, are levied at 12.5% (2009: 12.5%) for the six months ended 30 June 2010 based on relevant tax circulars. Other PRC subsidiaries are subject to the statutory tax rate of 25% for both periods.

No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2009 and 2010 as the Group did not have any assessable profit during both periods.

7. DIVIDENDS

During the current period, a dividend of HK$0.024 per share (equivalent to approximately RMB0.021 per share) (2009: HK$0.036 per share), amounting to an aggregate amount of approximately RMB8,397,000 was declared and paid to shareholders as the final dividend for 2009 (2009: RMB12,727,000 in aggregate was paid in respect of final dividend for 2008).

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

8. EARNINGS PER SHARE

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**76,781**	10,141

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

8. EARNINGS PER SHARE — continued

	Six months ended 30 June 2010 '000	Six months ended 30 June 2009 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**401,044**	401,044

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB33,307,000 (2009: RMB14,018,000) on the acquisition of property, plant and equipment and approximately RMB885,685,000 (2009: RMB102,248,000) on construction in progress in order to increase its manufacturing capabilities in which including interest capitalisation of approximately RMB17,315,000 (2009: RMB6,383,000).

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB3,332,000 (2009: RMB1,542,000) for proceeds of RMB1,735,000 (2009: RMB742,000), resulting in a loss on disposal of RMB1,597,000 (2009: RMB650,000).

10. TRADE AND BILLS RECEIVABLES

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
0–30 days	**165,860**	97,721
31–90 days	**7,776**	29,024
91–365 days	**8,860**	9,097
Over 1 year	**417**	2,077
	182,913	137,919

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

10. TRADE AND BILLS RECEIVABLES — continued

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
0–90 days	**354,569**	235,493
91–180 days	**324,635**	297,622
	679,204	533,115

Bills receivable of approximately RMB185,824,000 (31 December 2009: RMB251,524,000) was endorsed with recourse to creditors as at 30 June 2010 and the corresponding trade payables of RMB185,824,000 (31 December 2009: RMB251,524,000) were included in the condensed consolidated statement of financial position accordingly.

11. TRADE AND BILLS PAYABLES

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
0–90 days	**305,048**	195,452
91–365 days	**122,838**	153,284
Over 1 year	**18,160**	7,914
	446,046	356,650

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

12. DERIVATIVE FINANCIAL INSTRUMENTS

	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Derivative financial instruments is analysed as:		
Liabilities		
Foreign currency forward contracts (note i)	**871**	1,950
Interest rate swaps (note ii)	**11,395**	3,048
	12,266	4,998

	Six months ended 30 June	
	2010 (unaudited) RMB'000	2009 (unaudited) RMB'000
Changes in fair value of derivative financial instruments comprise:		
Foreign currency forward contracts (note i)	**783**	(189)
Interest rate swaps (note ii)	**(8,347)**	—
	(7,564)	(189)

Notes:

(i) The Group entered into arrangements with various commercial banks in the PRC that the Group borrowed one year US dollar loans from these banks for settlement of its US dollar payable to suppliers denominated in US dollar. At the same time, the Group (a) placed one year Renminbi fixed deposits (amounted to the Renminbi equivalent of the respective amounts of US dollar loans plus interests thereon) to the banks as security against the US dollar loans, and (b) entered into non-delivery forward contracts with the banks to notional purchase US dollars (amounted to the US dollar loans plus interests thereon) by notionally selling Renminbi at predetermined forward rates (the "Arrangements").

At 30 June 2010, the US dollar loans of RMB118,841,000 (31 December 2009: RMB136,539,000) and fixed deposits denominated in Renminbi of RMB122,810,000 (31 December 2009: RMB139,750,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the period ended 30 June 2010, interest income on the fixed deposits of RMB1,546,000 (31 December 2009: RMB1,032,000), exchange gain on US dollar loans of RMB832,000 (31 December 2009: exchange loss of RMB50,000) are included in profit or loss, while the interest expenses on US dollar loans of RMB1,122,000 (31 December 2009: RMB707,000) are included in finance cost.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

12. DERIVATIVE FINANCIAL INSTRUMENTS — continued

Notes: — continued

(i) *— continued*

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

Aggregate notional amount	Maturity	Forward exchange rate (net settlement)
30 June 2010		
US$17,550,058.93	From July 2010 to June 2011	Buy US$/sell RMB at 6.6819 to 6.8856
31 December 2009		
US$19,440,880.30	From May 2010 to December 2010	Buy US$/sell RMB at 6.7824 to 6.8856

At 30 June 2010, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB871,000 (31 December 2009: RMB1,950,000). 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 gain on change in fair value of the foreign currency forward contracts amounting to RMB783,000 (year ended 31 December 2009: loss on change in fair value of RMB4,086,000) has been recognised in the profit or loss for the period.

(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. These contracts remain outstanding as at 30 June 2010 and the major terms of these contracts 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 interest rate swap contracts are measured at fair value at 30 June 2010. 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 RMB8,347,000 has been recognised in the profit or loss for the period.

13. DISCOUNTED BILL FINANCING

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

14. BORROWINGS

The Group obtained new bank loans amounting to RMB1,313,103,000 (2009: RMB550,929,000), and repaid RMB657,160,000 (2009: RMB625,404,000) during the period. The newly raised loans bear interest at market rates from 0.91% to 7.96% per annum (2009: 0.93% to 6.90% per annum).

15. SHARE CAPITAL

		Share capital	
	Number of shares	HK$'000	Shown in the condensed consolidated financial statement RMB'000
Issued and fully paid Ordinary shares of HK$0.1 each At 31 December 2009 and 30 June 2010	**401,044,000**	**40,104**	**37,872**

16. SHARE-BASED PAYMENTS

On 8 April 2010, the Company granted options to an employee to subscribe for 1,600,000 shares in the Company at an exercise price of HK$3.01 per share under its share option scheme adopted on 19 November 2007.

Details of the share option scheme are as follows:

Date of grant	Vesting period	Exercise period	Maximum number of options exercisable	Life of options
8 April 2010	8 April 2010 to 30 June 2010	1 July 2010 to 31 December 2011	400,000	1.73 years
8 April 2010	8 April 2010 to 30 June 2011	1 July 2011 to 31 December 2012	400,000	2.73 years
8 April 2010	8 April 2010 to 30 June 2012	1 July 2012 to 31 December 2013	400,000	3.73 years
8 April 2010	8 April 2010 to 30 June 2013	1 July 2013 to 31 December 2014	400,000	4.73 years

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

16. SHARE-BASED PAYMENTS — continued

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

	Number of options
Options granted during the period and outstanding at 30 June 2010	**1,600,000**
Exercisable at the end of the period	**400,000**

The purpose of the share option scheme is to recognise and reward the participant's contribution to the growth and development of the Group.

The fair value of the options determined at the date of grant using the Black-Scholes Model was approximately HK$1,724,000 (equivalent to approximately RMB1,511,000).

The Black-Scholes Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	At 8 April 2010
Grant date share price	HK$3.00
Exercise price	HK$3.01
Expected life	0.75 years to 3.75 years
Expected volatility	59.456%, 69.93%, and 67.87%
Dividend yield	0.88%
Risk-free interest rate	0.722%–1.997%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years.

The Group recognised an expense of RMB405,000 for the six months ended 30 June 2010 in relation to share options granted by the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

17. CAPITAL COMMITMENTS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**305,865**	895,102

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Sales of goods to 濰坊盛泰藥業有限公司 (Weifang Shengtai Medicine Co., Ltd.) ("Shengtai Medicine"), a non-controlling shareholder of a subsidiary of the Company	**45,559**	41,205

(b) Balance with a related party

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivable — Shengtai Medicine	**898**	2,442

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

18. RELATED PARTY TRANSACTIONS — continued

(c) Compensation of key management personnel

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Short term employee benefit	**1,253**	919
Retirement benefit scheme contributions	**15**	18
Equity-settled share-based payments	**405**	—
	1,673	937