



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

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



Interim 2014
Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Dongxing (*Chairman*)
Mr. Shi Weixin (*Vice Chairman*)
Mr. Ci Xiaolei (*General Manager*)
Mr. Zhang Zengguo (*Deputy General Manager*)

Non-Executive Directors

Mr. Wang Junfeng
Mr. Zhang Licong

Independent Non-Executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Ms. Jiao Jie (*Appointed on 27 January 2014*)
Ms. Xu Ye (*Resigned on 27 January 2014*)

AUDIT COMMITTEE

Mr. Leung Ping Shing (*Chairman*)
Mr. Wang Zefeng
Ms. Jiao Jie (*Appointed on 27 January 2014*)
Ms. Xu Ye (*Resigned on 27 January 2014*)

REMUNERATION COMMITTEE

Mr. Wang Zefeng (*Chairman*)
Mr. Wang Dongxing
Mr. Leung Ping Shing

NOMINATION COMMITTEE

Ms. Jiao Jie (*Chairlady*) (*Appointed on 27 January 2014*)
Mr. Wang Dongxing
Mr. Wang Zefeng
Ms. Xu Ye (*Resigned on 27 January 2014*)

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael

AUTHORISED REPRESENTATIVES

Mr. Wang Dongxing
Mr. Chan Yee Ping, Michael

PRINCIPAL PLACE OF BUSINESS IN CHINA

Changle Economic Development Zone
Weifang 262400
Shandong
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedder Road, George Town
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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 AS TO THE LAWS OF HONG KONG

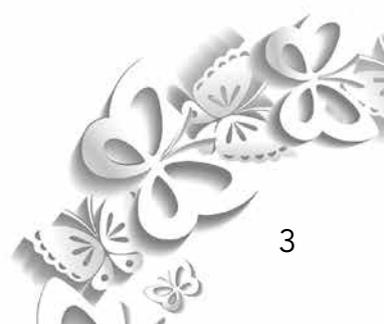
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OPERATION REVIEW AND OUTLOOK

OPERATION REVIEW

In the first half of 2014, the Chinese paper manufacturing industry exposed to the over-capacity and the landscape remained harsh. The Group leveraged on advantages of price competition to maintain a good status characterized by a balanced production and sales and a reasonable inventory, and maintained a steady market share. Despite the drop in the average selling price of paper products, the Group procured quality materials in a good bargain and controlled the production costs effectively. It enabled the gross profit margin in the first half of 2014 to increase as compared to that in the first half of 2013.

In the first half of 2014, two production lines for pre-printed projects started the pilot run, and export orders were acquired. The Company believes that with the increasing pre-printed orders and advancement of operating techniques, the economies of scale of these two production lines will be released gradually. Meanwhile, our joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd., (the "Joint Venture") has maintained good operation status and continued to contribute profits.

OUTLOOK

The Group anticipates that in the second half of this year, there will still be price challenges for most of the paper products in China. The Group will continue to facilitate detailed management, control the costs effectively and employ healthy operational policies to promote the profit growth. Meanwhile, the Group will explore the overseas markets, with particular focus on the export of the pre-printed products to shape up new income stream. The Group will continuously enhance the capability of the Joint Venture to research and develop the high-end decorative paper, in order to make full use of the advantages of the high-end decorative paper and further optimizes products structure and enhances market share.

In addition, the successful issue of corporate debts in the amount of RMB500 million will optimize our Group's debt structure step by step and promote our Group's continuous and stable operation.

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL REVENUE

For the first six months ended 30 June 2014 (“1H 2014”), our Group recorded a total revenue of RMB1,761.0 million, as compared to that of RMB1,872.8 million for the first six months ended 30 June 2013 (“1H 2013” or the “corresponding period last year”). Sales of paper products, and electricity and steam was RMB1,675.5 million and RMB85.5 million, respectively, for 1H 2014. (1H 2013: RMB1,801.1 million and RMB71.7 million, respectively)

SALES OF PAPER PRODUCTS

Our Group was principally engaged in manufacturing and selling of four types of paper products, namely, white top linerboard, light-coated linerboard, core board and specialized paper products. Sales volume and average selling price (“ASP”) of these four paper products recorded decreases for 1H 2014 amidst the intense market competition and a slightly over-supply in the paper industry. Sales volume of paper products was around 520,000 tons, representing an approximately 3.7% drop as compared to approximately 540,000 tons for the corresponding period last year. ASP of paper products also recorded a low single digit decrease for 1H 2014.

SALES OF ELECTRICITY AND STEAM

Sales of electricity and steam to local residents and a minority shareholder of a subsidiary of our Company contributed the rest of our Group’s total revenue. Sales of electricity and steam was RMB85.5 million and RMB71.7 million, respectively, for 1H 2014 and 1H 2013.

The table below sets forth the sales and gross profit margin by different business segments:

	1H 2014			1H 2013		
	Gross profit margin	% of total revenue		Gross profit margin	% of total revenue	
	RMB'000	(%)	(%)	RMB'000	(%)	(%)
White top linerboard	527,895	18.9	30.0	617,991	14.1	33.0
Light-coated linerboard	807,222	19.1	45.8	819,577	17.0	43.8
Core board	199,208	19.7	11.3	217,723	17.7	11.6
Specialized paper products	141,194	22.5	8.0	145,885	14.9	7.8
Subtotal for sales of paper products	1,675,519	19.4	95.1	1,801,176	15.9	96.2
Sales of electricity and steam	85,504	18.7	4.9	71,670	24.1	3.8
Total revenue of our Group	1,761,023	19.3	100.0	1,872,846	16.2	100.0

COST OF SALES

Cost of sales decreased by RMB148.5 million or approximately 9.5%, from RMB1,569.0 million for 1H 2013 to RMB1,420.5 million for 1H 2014. Our Group’s strategically purchased low-price recovered paper and kraft pulp during 1H 2014 resulted in the decrease of 9.5% in cost of sales, which was higher than a 6.0% decrease in total revenue.



With respect to the paper products segment, raw materials cost accounted for approximately 74.0% (1H 2013: 75.0%) of the cost of sales for 1H 2014. The remaining 26.0% of cost of sales (1H 2013: 25.0%) mainly represented labour costs and manufacturing overhead costs such as depreciation, energy cost, consumables, repair and maintenance, and other overhead related expenses.

GROSS PROFIT AND GROSS PROFIT MARGIN

Benefits from the efficient cost control and strategic low-cost raw materials procurement out-weighted the negative effects of drop in sales volume and ASP for 1H 2014, our Group was able to record an increase in gross profit by RMB36.7 million, from RMB303.9 million for 1H 2013 to RMB340.6 million for 1H 2014. The overall gross profit margin was 19.3% for 1H 2014 as compared to 16.2% for 1H 2013. With respect to the paper products segment, gross profit margin was 19.4% for 1H 2014, representing an increase of 3.5 percentage points, as compared to 15.9% for 1H 2013.

OTHER PROFIT AND LOSS ITEMS

Other income of RMB42.2 million mainly represented bank interest income of RMB17.2 million (1H 2013: RMB17.3 million), interest income earned from the Joint Venture of RMB9.0 million (1H 2013: Nil), unconditional government subsidy of RMB1.4 million (1H 2013: RMB19.9 million) and value-added tax refund of RMB5.7 million (1H 2013: RMB14.5 million).

Other gains and losses was RMB2.3 million for 1H 2014, as compared to RMB11.0 million for 1H 2013. The drop in other gains and losses of RMB8.7 million mainly reflected a net exchange loss of RMB5.1 million for 1H 2014 as compared to a net exchange gain of RMB9.0 million for 1H 2013.

Distribution and selling expenses primarily consisted of transportation costs and staff costs relating to sales and marketing. It decreased from RMB127.8 million for 1H 2013 to RMB121.9 million for 1H 2014 as a result of the decrease in sale volume of paper products. As a percentage of total revenue, distribution and selling expenses was 6.9% for 1H 2014 which was comparable to 6.8% for 1H 2013.

Administrative expenses were RMB76.7 million for 1H 2014, a slight higher than RMB73.2 million for 1H 2013. As a percentage of total revenue, it also increased slightly from 3.9% for 1H 2013 to 4.4% for 1H 2014.

Finance costs were RMB169.1 million for 1H 2014 (1H 2013: RMB145.2 million). The increase of RMB23.9 million was mainly driven by the higher interest rate for bank borrowings and the bills discounting charges.

Share of profit of a joint venture of RMB1.9 million represented the share of profit of our joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd.

INCOME TAX EXPENSES

Income tax expenses recorded a decrease from RMB6.3 million for 1H 2013 to RMB4.8 million for 1H 2014 as a result of the decrease in taxable profit. Effective tax rate was 24.8% for 1H 2014 (1H 2013: 20.0%).

PROFIT AND TOTAL COMPREHENSIVE INCOME

As a result of the factors discussed above, the net profit and the profit attributable to the owners of the Company for 1H 2014 was RMB14.4 million and RMB11.0 million, respectively, representing a decrease of approximately 43.1% and 46.6%, respectively, as compared to RMB25.3 million and RMB20.6 million, respectively, for 1H 2013.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital, gearing and financial resources

As at 30 June 2014, our Group had restricted bank deposits of RMB1,530.5 million (31 December 2013: RMB1,230.3 million) and bank and cash balances of RMB245.2 million (31 December 2013: RMB466.9 million). For the debt structure, our Group had bank borrowings, obligations under finance leases and short-term financing notes of RMB2,965.3 million, RMB201.7 million and RMB300.0 million, respectively, as at 30 June 2014. (31 December 2013: RMB3,006.7 million, RMB195.3 million and RMB300.0 million, respectively)

Our Group relies on operating cash flow and credit facilities provided by commercial banks in China to meet working capital requirement. As at 30 June 2014, our Group recorded net current liabilities of RMB2,631.4 million, which was around 11.0% higher than that of RMB2,369.8 million as at 31 December 2013. The current ratio of our Group was 0.57 times, which was comparable to 0.58 times as at 31 December 2013. There was an improvement in net gearing ratio in 1H 2014. Net gearing ratio was 105.6% as at 30 June 2014, as compared to that of 113.7% as at 31 December 2013. The unutilized banking facilities available to our Group were approximately RMB2,479.9 million as at 30 June 2014. (31 December 2013: RMB2,268.8 million)

In view of continuous strong cash inflows from operating activities and available banking facilities at 30 June 2014, our Group possessed sufficient resources to meet daily working capital needs.

Inventories increased by RMB95.6 million, from RMB285.5 million as at 31 December 2013 to RMB381.1 million as at 30 June 2014. Inventory turnover was 43 days for 1H 2014. (1H 2013: 66 days)

Trade receivables also increased by RMB122.2 million, from RMB360.5 million as at 31 December 2013 to RMB482.7 million as at 30 June 2014. Trade receivables turnover was 44 days for 1H 2014, which was comparable to 43 days for 1H 2013 and in line with the credit period of 30-45 days our Group given to our customers.

Trade payables recorded an increase by RMB85.7 million, from RMB517.5 million as at 31 December 2013 to RMB603.2 million as at 30 June 2014. Trade payables turnover was 72 days for 1H 2014. (1H 2013: 54 days)

Notes to financial ratios

- (1) *Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days*
- (2) *Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant period and multiplied by 182 days*
- (3) *Trade payables turnover days equal to the average of the opening and closing balances of trade and bills payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days*
- (4) *Current ratio equals to current assets divided by current liabilities as of the end of the period*

(5) *Net gearing ratio equals to total of bank and other borrowings, obligations under finance leases and short-term financing notes, net of bank and cash balances and restricted bank deposits, divided by the total equity as of the end of the period*

Cash flows

The table below sets forth the condensed consolidated statement of cash flows for the six months ended 30 June of the respective period.

	1H 2014 RMB'000	1H 2013 RMB'000
Net cash from operating activities	269,852	277,020
Net cash from (used in) investing activities	(485,387)	44,611
Net cash (used in) financing activities	(6,159)	(311,327)
Net (decrease)/increase in cash and cash equivalents	(221,694)	10,304
Cash and cash equivalents at beginning of the period*	466,934	258,391
Cash and cash equivalents at end of the period*	245,240	268,695

* *Excluded restricted bank deposits*

Net cash from operating activities for 1H 2014 was RMB269.9 million (1H 2013: RMB277.0 million). Net cash used in investing activities of RMB485.4 million for 1H 2014 mainly represented purchase of property, plant and equipment of RMB203.2 million and increase in restricted bank deposits of RMB300.2 million. The decrease in net cash used in financing activities from RMB311.3 million for 1H 2013 to only RMB6.2 million for 1H 2014 was mainly driven by the increase in discounted bills financing of RMB204.8 million and the increase in the proceeds from sale and finance lease back transactions of RMB60.3 million.

Capital expenditure

Our Group spent approximately RMB203.2 million to enhance the productivity of existing plant and for construction in progress for future development for 1H 2014.

Capital commitments and contingent liabilities

As at 30 June 2014, our Group had capital commitments, which were contracted but not provided for, for acquisition of property, plant and equipment of RMB61.1 million.

There were no contingent liabilities at 30 June 2014.

Pledge of assets

As at 30 June 2014, the aggregate carrying amount of our assets pledged was approximately RMB2,842.44 million. (As at 31 December 2013: RMB2,650.3 million).

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

Our Company is committed to achieve high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") during 1H 2014 contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our 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 our Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code during 1H 2014.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Company's financial reporting process and internal control system and to provide advice and comments to our Board. The audit committee consists of three independent non executive Directors, namely Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie. Mr. Leung Ping Shing is the chairman of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for 1H 2014 and discussed the financial matters with management of the Company. The unaudited condensed consolidated financial statements of our Group for 1H 2014 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.

EMPLOYEES AND REMUNERATION POLICIES

Our Group had approximately 2,700 employees as at 30 June 2014. The staff costs for 1H 2014 were RMB70.5 million (1H 2013: RMB71.8 million). The emolument policy of our 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. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK1 cent (1H 2013: Nil) per ordinary share. The interim dividend will be paid on or around Tuesday, 30 September 2014.



CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the interim dividend, the register of members will be closed from Wednesday, 17 September 2014 to Friday, 19 September 2014 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 16 September 2014 for registration.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2014, none of our Company and any of its subsidiaries has purchased, sold or redeemed any of our Company's shares.

SUFFICIENCY PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required under the Listing Rules throughout 1H 2014.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2014, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our 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 our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

Name of Director	Nature of interest	Number of share	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Beneficial owner	5,663,500	0.71%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement	630,000	0.08%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	6,293,500	0.78%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	6,293,500	0.78%
Mr. Ci Xiaolei	Beneficial owner	1,440,000	0.18%

Notes:

1. A group of 20 individuals comprising Mr. Chen Xiaojun, Mr. Guo Jianlin, Mr. Hu Gang, Ms. Li Hua, Mr. Li Zhongzhu, Mr. Lu Yujie, Mr. Ma Aiping, Mr. Sang Yonghua, Mr. Sang Ziqian, Mr. Shi Weixin, Mr. Sun Qingtao, Mr. Wang Changhai, Mr. Wang Dongxing, Mr. Wang Feng, Mr. Wang Yilong, Mr. Wang Yongqing, Ms. Wu Rong, Mr. Zhang Zengguo, Mr. Zheng Fasheng and Mr. Zuo Xiwei (the "Controlling Shareholders Group"). The members of the Controlling Shareholders Group entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007 (the "Concert Parties Agreement"), pursuant to which each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in China Sunshine, China Sunrise and any members of our Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure

CORPORATE GOVERNANCE AND OTHER INFORMATION

due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo, is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

- Mr. Shi Weixin and Mr. Zhang Zengguo, as parties to the Concert Parties Agreement, are deemed to be interested in the 6,293,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF OUR COMPANY

So far as we, the Directors, are aware, as at 30 June 2014, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of our 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	325,387,052	40.54%
China Sunshine ⁽¹⁾	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholder Group ⁽²⁾	Long	Interest of a party to an agreement to acquire interest in our Company	325,387,052	40.54%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	6,293,500	0.78%
Good Rise Holdings Limited	Long	Beneficial interest	73,547,674	9.16%
LC Fund III, LP ⁽³⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited ⁽⁴⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited ⁽⁵⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited ⁽⁶⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Wang Nengguang ⁽⁷⁾	Long	Interest of a controlled corporation	73,547,674	9.16%
Seabright SOF (I) Paper Limited	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited ⁽⁸⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited ⁽⁹⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited ⁽¹⁰⁾	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC ⁽¹⁰⁾	Long	Interest of a controlled corporation	71,341,244	8.89%

Notes:

- As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 325,387,052 Shares held by China Sunrise.
- Pursuant to the Concert Parties Agreement, each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the Target Entities and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunshine owns the entire interest of China Sunrise, and the Controlling Shareholders Group owns the entire interest of China Sunshine, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code) is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Further, Mr. Wang Dongxing is interested in 5,663,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 630,000 Shares as beneficial owner. Other members of the Controlling Shareholder Group, being member of the Concert Parties Agreement, are deemed to be interested in such shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

3. *As LC Fund III, LP owns the entire interest of Good Rise Holdings Limited, LC Fund III, LP is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.*
4. *As LC Fund III GP Limited is the general partner of LC Fund III, LP, LC Fund III GP Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.*
5. *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 73,547,674 Shares held by Good Rise Holdings Limited.*
6. *As Legend Holdings Limited owns the entire interest of Right Lane Limited, Legend Holdings Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.*
7. *As Mr. Wang Nengguang controls Good Rise Holdings Limited, Mr. Wang Nengguang is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.*
8. *As Seabright China Special Opportunities (I) Limited owns the entire interest in Seabright SOF (I) Paper Limited. Seabright China Special Opportunities (I) Limited is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.*
9. *As Seabright Asset Management Limited controls more than one third of the voting rights of Seabright China Special Opportunities (I) Limited, Seabright Asset Management Limited is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.*
10. *Each of China Everbright Limited and Seagate Global Advisors, LLC controls more than one third of the voting rights of Seabright Asset Management Limited. Accordingly, each of China Everbright Limited and Seagate Global Advisors, LLC is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.*

Except 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 our Company as at 30 June 2014.

SHARE OPTION SCHEME

Pursuant to the written resolution of our Shareholders passed on 19 November 2007, a share option scheme (the "Share Option Scheme") was adopted by our 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 our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing 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 our 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 our 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 our Group, ("Executive"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our 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 our Group; and (g) an associate (as defined in the Listing Rules) of any of the foregoing persons. The maximum number of shares which may be issued upon exercise of all options to be granted



under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 40,000,000 shares (the "Scheme Mandate Limit") provided that our Company may at any time as our Board may think fit seek approval from our 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 our Company shall not exceed 10 per cent of the shares of our Company in issue as at the date of approval by our Shareholders 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 our Company's issued share capital from time to time.

The exercisable of the option is subject to both the achievement of the operating and financial targets of our Group, and the annual appraisal result of the grantees of the option. The remuneration committee of our Company and we, the Directors, will be jointly responsible for monitoring the operating and financial targets of our 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 our Company's issued share capital from time to time. The period within which the options must be exercised will be specified by our Board at the time of grant, which must expire no later than 10 years from the date of grant (being the date on which our Board resolved to offer the grant of an option to the Eligible Person concerned).

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 favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our 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 our 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 of our Company; (b) the closing price of a share of our Company as stated in the daily quotations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sheet on the Offer Date; and (c) the average closing price of a share of our Company 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 the Share Option Scheme, such scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, being 12 December 2007, 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.

There was no outstanding option granted under the Share Option Scheme as at 30 June 2014, and up to date of this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

INTRODUCTION

We have reviewed the condensed 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 16 to 36, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and 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 these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2014



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June 2014 RMB'000 (unaudited)	Six months ended 30 June 2013 RMB'000 (unaudited)
Revenue	4	1,761,023	1,872,846
Cost of sales		(1,420,460)	(1,568,973)
Gross profit		340,563	303,873
Other income	5	42,170	62,986
Other gains and losses	6	2,251	10,965
Distribution and selling expenses		(121,907)	(127,774)
Administrative expenses		(76,716)	(73,216)
Finance costs	7	(169,143)	(145,245)
Share of profit of a joint venture		1,930	—
Profit before tax		19,148	31,589
Income tax expenses	8	(4,752)	(6,333)
Profit and total comprehensive income for the period	9	14,396	25,256
Profit and total comprehensive income attributable to:			
Owners of the Company		11,009	20,555
Non-controlling interests		3,387	4,701
		14,396	25,256
Earnings per share	11	RMB	RMB
— Basic		0.01	0.03
— Diluted		N/A	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	3,473,385	3,348,739
Prepaid lease payments	13	254,694	254,680
Investment properties	12	248,624	246,379
Goodwill		18,692	18,692
Deferred tax assets		12,666	9,148
Interest in a joint venture		113,092	111,162
Deposits		50,957	51,059
Amount due from a joint venture	23	279,602	241,001
		4,451,712	4,280,860
Current assets			
Inventories		381,107	285,521
Trade receivables	14	482,660	360,495
Prepaid lease payments	13	5,640	7,632
Bills receivable	15	578,447	687,163
Prepayments and other receivables		250,504	281,034
Income tax recoverable		7,758	6,739
Derivative financial instruments		224	—
Restricted bank deposits		1,530,471	1,230,308
Bank balances and cash		245,240	466,934
		3,482,051	3,325,826
Current liabilities			
Trade payables	16	603,178	517,470
Bills payable	16	197,700	152,157
Other payables		83,347	95,473
Payable for construction work, machinery and equipment		30,390	6,927
Income tax payable		2,091	451
Obligations under finance leases — current portion	17	110,020	102,679
Deferred income — current portion		2,365	2,367
Derivative financial instruments		—	1,149
Discounted bill financing	18	1,875,831	1,671,026
Bank borrowings — due within one year	19	2,894,552	2,831,940
Short-term financing notes	20	300,000	300,000
Other borrowings		14,000	14,000
		6,113,474	5,695,639

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Net current liabilities		(2,631,423)	(2,369,813)
Total assets less current liabilities		1,820,289	1,911,047
Capital and reserves			
Share capital		72,351	72,351
Reserves		1,445,280	1,434,271
Equity attributable to owners of the Company		1,517,631	1,506,622
Non-controlling interests		96,875	93,488
Total equity		1,614,506	1,600,110
Non-current liabilities			
Obligations under finance leases — non-current portion	17	91,691	92,573
Bank borrowings — due after one year	20	70,764	174,727
Deferred income — non-current portion		22,109	22,829
Deferred tax liabilities		21,219	20,808
		205,783	310,937
Total equity and non-current liabilities		1,820,289	1,911,047

The condensed consolidated financial statements on pages 16 to 36 were approved by the board of directors on 29 August 2014 and are signed on its behalf by:

Wang Dongxing
Director

Ci Xiaolei
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company												Non-controlling interests	Total
	Share capital	Capital redemption reserve	Share premium	Merger reserve	Capital reserve	Share option reserve	Assets revaluation reserve	Statutory surplus reserve	Discretionary surplus reserve	Retained profits	Subtotal			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013(audited)	72,351	610	695,682	(2,776)	85,121	362	19,806	72,050	5,429	535,867	1,484,502	85,323	1,569,825	
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	—	20,555	20,555	4,701	25,256	
Recognition of equity-settled share-based payment (Note 22)	—	—	—	—	—	65	—	—	—	—	65	—	65	
Capital contribution by non-controlling shareholders for the establishment of a new subsidiary	—	—	—	—	—	—	—	—	—	—	—	2,700	2,700	
At 30 June 2013 (unaudited)	72,351	610	695,682	(2,776)	85,121	427	19,806	72,050	5,429	556,422	1,505,122	92,724	1,597,846	
At 1 January 2014(audited)	72,351	610	695,682	(2,776)	79,992	—	19,806	75,375	5,429	560,153	1,506,622	93,488	1,600,110	
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	—	11,009	11,009	3,387	14,396	
At 30 June 2014 (unaudited)	72,351	610	695,682	(2,776)	79,992	—	19,806	75,375	5,429	571,162	1,517,631	96,875	1,614,506	





CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June 2014 RMB'000 (unaudited)	Six months ended 30 June 2013 RMB'000 (unaudited)
Net cash from operating activities	269,852	277,020
Investing activities		
Interest received	16,827	17,651
Proceeds on disposal of property, plant and equipment	1,115	7,949
Repayment of the loan receivables	—	50,000
Additions of property, plant and equipment	(203,166)	(119,108)
(Increase) decrease in restricted bank deposits	(300,163)	88,119
Net cash (used in) from investing activities	(485,387)	44,611
Financing activities		
Interest paid	(175,007)	(144,481)
Repayment of borrowings	(1,815,668)	(1,436,180)
Repayment of obligations under finance leases	(53,885)	(46,869)
Repayment of short-term financing notes	(300,000)	—
New borrowings raised	1,774,452	1,324,976
Proceeds from sale and finance lease back transactions	60,344	—
Net proceeds from issue of short-term financing notes	298,800	298,800
Increase (decrease) in discounted bill financing	204,805	(310,273)
Capital contribution by non-controlling shareholders of a subsidiary	—	2,700
Net cash used in financing activities	(6,159)	(311,327)
Net (decrease) increase in cash and cash equivalents	(221,694)	10,304
Cash and cash equivalents at beginning of the period, represented by bank balances and cash	466,934	258,391
Cash and cash equivalents at end of the period	245,240	268,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (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 Company and its subsidiaries (collectively referred to as the “Group”) are production and sale of paper products.

2. BASIS OF PREPARATION

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

The Group has net current liabilities of approximately RMB 2,631,423,000 as at 30 June 2014. This condition may cast significant doubt on the Group’s ability to continue as a going concern. The directors of the Company (the “Directors”) have evaluated the relevant available information and key assumptions used in the cash flow projections for the twelve months since the balance sheet date. In addition, although most of the existing bank facilities will expire within twelve months, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional borrowing facilities as necessary. Therefore, the Directors are of the opinion that the Group has sufficient borrowing facilities (including discounted bills financing, short-term bank borrowings, and the seven-year corporate bonds as disclosed in Note 24 to the condensed consolidated financial statements) for its working capital purposes. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards (“IFRSs”).

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities;
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting; and
- IFRIC 21 Levies

The application of the above new Interpretation and amendments to IFRSs in the current interim period has had no material effect in the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the Company’s senior executive management, being the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

(a) Segment result

The following is an analysis of the Group’s revenue and results by operating segment:

Six months ended 30 June 2014

	Paper products					Total RMB'000
	White top linerboard RMB'000	Light- coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	
Revenue from external customers	527,895	807,222	199,208	141,194	85,504	1,761,023
Inter-segment revenue	—	—	—	—	172,478	172,478
Segment revenue	527,895	807,222	199,208	141,194	257,982	1,933,501
Segment profit	99,706	153,798	39,242	31,809	28,288	352,843

4. SEGMENT INFORMATION (continued)**(a) Segment result** (continued)

Six months ended 30 June 2013

	Paper products					Total RMB'000
	White top linerboard RMB'000	Light- coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	
Revenue from external customers	617,991	819,577	217,723	145,885	71,670	1,872,846
Inter-segment revenue	—	—	—	—	209,815	209,815
Segment revenue	617,991	819,577	217,723	145,885	281,485	2,082,661
Segment profit	87,236	139,091	38,562	21,734	28,840	315,463

(b) Reconciliations of segment profit

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Profit		
Segment profit	352,843	315,463
Unrealised profit on intra-group sales	(26,504)	(29,542)
	326,339	285,921
Other income	32,736	62,140
Other gains and losses	4,113	6,894
Distribution and selling expenses	(121,907)	(127,774)
Administrative expenses	(68,257)	(65,420)
Finance costs	(155,806)	(130,172)
Share of profit of a joint venture	1,930	—
Consolidated profit before tax	19,148	31,589

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

4. SEGMENT INFORMATION *(continued)*

(b) Reconciliations of segment profit *(continued)*

Segment profit represents the gross profit earned by each paper product and the profit before tax earned by electricity and steam segment. The Group does not allocate other income, other gains and losses, distribution and selling expenses, administrative expenses, finance costs and share of profit of a joint venture to segment to the extent that are not attributable to the respective segment. In addition, the Group does not allocate income tax expense to both the paper product segments or the electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

- (c) There is no material change in respect of the Group's segment assets and segment liabilities from the amounts reported in the Group's annual financial statements for the year ended 31 December 2013.

5. OTHER INCOME

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Interest income on bank deposits	17,226	17,276
Interest income on the loan receivable	—	645
Interest income earned from a joint venture (note iii)	8,955	—
Government grants (notes i & ii)	10,405	38,122
Rental income	3,447	2,293
Commission income from sales of materials	2,137	2,750
Others	—	1,900
	42,170	62,986

Notes:

- i. During the six months ended 30 June 2014, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) ("Century Sunshine"), a subsidiary of the Company, was granted unconditional government subsidy of approximately RMB1,400,000 from local government (six months ended 30 June 2013: RMB19,898,000).
- ii. During the six months ended 30 June 2014, 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd), a subsidiary of the Company, was entitled to value-added tax refund of approximately RMB5,706,000 from local government (six months ended 30 June 2013: RMB14,549,000).
- iii. During the six months ended 30 June 2014, the Group earned interest income from 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd ("Sunshine Oji" or the "JV Company")), a joint venture of the Group, at 120% of the prevailing bank lending rate announced by the People's Bank of China, with effective interest rate of 7.2% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

6. OTHER GAINS OR LOSSES

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Changes in fair value of investment properties	2,245	2,442
Changes in fair value of derivative financial instruments	1,373	(1,058)
Net exchange loss (gain)	(5,104)	8,953
Loss on disposal of property, plant and equipment	(1,078)	(5,027)
Others	4,815	5,655
	2,251	10,965

7. FINANCE COSTS

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Interest expenses on:		
Discounted bill financing	58,148	37,957
Bank and other borrowings	98,961	91,221
Finance leases	7,912	10,068
Short-term financing notes	11,616	7,926
	176,637	147,172
Less: Interest capitalised in construction in progress	(7,494)	(1,927)
	169,143	145,245

Borrowing costs capitalised during the six months ended 30 June 2014 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.20% (six months ended 30 June 2013: 6.60%) per annum to expenditure on construction in progress.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

8. INCOME TAX EXPENSES

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	7,859	7,612
Deferred tax credit	(3,107)	(1,279)
Charge for the period	4,752	6,333

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

In 2010, Century Sunshine was recognised as Advanced Technology Enterprise which was approved by the Science Technology Bureau, the Finance Bureau and the State Administration of Taxation in Shandong province. During the year 2013, Century Sunshine obtained the renewed Advanced Technology Enterprise certificate. Pursuant to the relevant laws and regulations in the PRC, Century Sunshine was entitled to enterprise income tax rate of 15% from 2010 to 2015.

In 2013, 昌樂新邁紙業有限公司 (Changle Numat Paper company Industry Co., Ltd.) ("Changle Numat") was recognised as Advanced Technology Enterprise which was approved by the Science Technology Bureau, the Finance Bureau and the State Administration of Taxation in Shandong province. Pursuant to the relevant laws and regulations in the PRC, Changle Numat was entitled to enterprise income tax rate of 15% for three years from 2013 to 2015.

No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2014 and 2013 as the Group did not have any assessable profit arising in Hong Kong during both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

9. PROFIT FOR THE PERIOD

Profit before tax has been arrived at after charging:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Wages and salaries	63,603	64,943
Retirement benefits schemes contributions	6,936	6,753
Equity-settled share-based payment	—	65
Total staff costs (including directors' emoluments)	70,539	71,761
Cost of inventories recognised as an expense	1,388,222	1,508,990
Depreciation of property, plant and equipment	107,284	98,464
Release of prepaid lease payments	2,132	2,441

10. DIVIDENDS

No dividends were paid, declared or proposed during the current and prior interim periods.

Subsequent to the end of the current interim period, the Directors have determined that an interim dividend of HK1 cent per share (six months ended 30 June 2013: Nil) will be paid to the owners of the Company whose name appears in the Register of Members on 16 September 2014.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

11. EARNINGS PER SHARE

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

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	11,009	20,555
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	802,588	802,588
Effect of dilutive potential ordinary shares: Share options	N/A	—
Number of ordinary shares for the purpose of diluted earnings per share	N/A	802,588

No diluted earnings per share is presented for the six months ended 30 June 2014, because there is no outstanding share options to be considered, which were forfeited upon the related employee's resignation in the second half year of 2013.

The computation of diluted earnings per share does not assume the exercise of share options as the exercise price is higher than the average market price of the Company's shares for the six months ended 30 June 2013.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB2,193,000 (six months ended 30 June 2013: RMB12,976,000) for proceeds of RMB1,115,000 (six months ended 30 June 2013: RMB7,949,000), resulting in a loss on disposal of RMB1,078,000 (six months ended 30 June 2013: RMB5,027,000).

In addition, during the current interim period, the Group incurred approximately RMB24,683,000 (six months ended 30 June 2013: RMB40,577,000) on the acquisition of property, plant and equipment and approximately RMB209,440,000 (six months ended 30 June 2013: RMB47,084,000) on construction in progress in order to maintain its manufacturing capabilities, which included interest capitalisation of approximately RMB7,494,000 (six months ended 30 June 2013: RMB1,927,000).

The Group's investment properties as at the end of the current interim period were remeasured to fair value by reference to a valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market, as appropriate. The resulting increase in fair value of investment properties of RMB2,245,000 has been recognised directly in profit or loss for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB2,442,000).

As at 30 June 2014, the Group is in the process of obtaining the building certificate and land use right for one of the investment properties which is located in the People's Republic of China with a fair value of RMB56,956,000 (31 December 2013: two properties with a fair value of RMB246,379,000). In the opinion of the Directors, the Group is entitled to lawfully and validly occupy and use the above-mentioned property without incurring significant additional cost in obtaining the building certificate.

13. PREPAID LEASE PAYMENTS

The Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying amount of RMB41,818,000 (31 December 2013: RMB42,240,000) which are located in the People's Republic of China. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

14. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0–30 days	352,961	259,950
31–90 days	97,589	64,590
91–365 days	27,063	30,954
Over 1 year	5,047	5,001
	482,660	360,495

15. BILLS RECEIVABLE

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0–90 days	372,209	427,683
91–180 days	206,238	259,480
	578,447	687,163

As at 30 June 2014, the Group has discounted bills receivable of RMB286,450,000 (31 December 2013: RMB11,443,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivable and has recognised the cash received upon the discounting as discounted bill financing (see Note 18).

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16. TRADE AND BILLS PAYABLES

The following is an analysis of trade payables by age, presented based on goods received date at the end of the reporting period:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0–90 days	524,575	433,568
91–365 days	68,218	61,613
Over 1 year	10,385	22,289
	603,178	517,470

All the bills payable as at 30 June 2014 and 31 December 2013 are trading nature and will mature within six months respectively.

17. OBLIGATIONS UNDER FINANCE LEASE

The Group has entered into several sale and leaseback transactions with an independent third party by way of sale and leasing back of certain machineries. In accordance with the lease agreement, the term of the lease was 3 to 5 years and the Group has the option to purchase the assets at a nominal consideration upon the end of the lease term. Such transaction was considered as sale and leaseback arrangement resulting in a finance lease.

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Analysed for reporting purposes as:		
Current liabilities	110,020	102,679
Non-current liabilities	91,691	92,573
	201,711	195,252



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For the six months ended 30 June 2014

17. OBLIGATIONS UNDER FINANCE LEASE (continued)

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 6.80% to 7.73% (31 December 2013: 7.15% to 7.73%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Amounts payable under finance leases				
Within one year	120,849	113,749	110,020	102,679
In more than one year but not more than two years	58,990	75,094	54,355	71,037
In more than two years but not more than five years	40,541	22,080	37,336	21,536
	220,380	210,923	201,711	195,252
Less: future finance charges	(18,669)	(15,671)	N/A	N/A
Present value of lease obligations	201,711	195,252	201,711	195,252
Less: Amount due for settlement within 12 months (shown under current liabilities)			(110,020)	(102,679)
Amount due for settlement after 12 months			91,691	92,573

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

18. DISCOUNTED BILL FINANCING

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Discounted bill financing	1,875,831	1,671,026
Comprising:		
Discounted bills receivable from third parties	286,450	11,443
Discounted bills receivable from subsidiaries of the Group	1,589,381	1,659,583
Total	1,875,831	1,671,026

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

During the current interim period, bank bills issued by certain subsidiaries of the Group to the suppliers and other subsidiaries within the Group were discounted to the banks for financing.

19. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,774,452,000 (six months ended 30 June 2013: RMB1,324,976,000), and repaid loans amounting to RMB1,815,668,000 (six months ended 30 June 2013: RMB1,436,180,000). The newly raised loans bear interest at market rates from 1.43% to 8.5% per annum (six months ended 30 June 2013: 1.43% to 9.0% per annum).

20. SHORT-TERM FINANCING NOTES

On 16 January 2014, Century Sunshine has issued another RMB300,000,000 one-year term short term financing note and replaced the first tranche of RMB300,000,000 which expired in January 2014. The short-term financing notes bear interest at a fixed coupon rate of 8.3% per annum and with an effective interest rate of 8.7% per annum.

21. CAPITAL COMMITMENTS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	61,134	80,991

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis are set out below.

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/6/2014	31/12/2013		
Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	Foreign currency forward contracts: RMB224,000	Nil	Level 2	Discounted cash flow. Key inputs are 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 and discounted at a rate that reflects the credit risk of various counterparties.
Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/6/2014	31/12/2013		
Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	Nil	Foreign currency forward contracts: RMB1,149,000	Level 2	Discounted cash flow. Key inputs are 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 and discounted at a rate that reflects the credit risk of various counterparties.

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

23. RELATED PARTY TRANSACTIONS**(a) The Group entered into the following significant transactions with related parties during the period:**

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Sales of electricity and steam to a non-controlling shareholder of a subsidiary	53,224	50,764
Interest income earned from a joint venture (Note 5)	8,955	—

(b) Balance with related parties

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade receivables from (*) a non-controlling shareholder of a subsidiary	9,886	7,839
Amount due from a joint venture (**) Receivables from the disposal of buildings, equipment and land used right	76,480	76,480
Receivables from the trial run operation financing	51,536	146,828
Interest receivable	26,648	17,693
Receivable arose from payment on behalf of a joint venture in current period (***)	124,938	—
	279,602	241,001

* The trade receivables from a non-controlling shareholder of a subsidiary are aged within 30 days, with credit term of 30 days granted by the Group.

** The balance will be collected after 12 months from the end of the reporting period. Other than the interest receivable, the receivables carrying interest at 120% of the prevailing bank lending rate announced by the People's Bank of China, with effective interest rate of 7.2% per annum.

*** During the current period, the Company acted as an agent to purchase certain wood pulp on behalf of Sunshine Oji for its business activities and paid on behalf of Sunshine Oji. The Group has imported the materials from overseas supplier and recognize a receivable from Sunshine Oji and a payable to the supplier at the same time when goods are delivered from the supplier and title has been passed to Sunshine Oji. As at 30 June 2014, receivable from Sunshine Oji in respect of the above arrangement is amounted to RMB124,938,000 (31 December 2013: nil).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

23. 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 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Short term employee benefit	2,034	1,958
Retirement benefit scheme contributions	21	11
Equity-settled share-based payments	—	65
	2,055	2,034

24. EVENT AFTER THE END OF THE INTERIM PERIOD

Century Sunshine completed the issuance of the corporate bonds on 23 July 2014. The final offering size of the seven-year corporate bonds was RMB500,000,000 with coupon rate of 8.19% per annum. The corporate bonds are guaranteed by 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation), and will be repaid with 20% of offering size annually from the year 2017 to the year 2021.