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 RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2009

INTERIM RESULTS

The board (the "Board") of directors ("Directors") of China Sunshine Paper Holdings Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED BALANCE SHEET

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

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

NOTES:

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

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

(a) Segment result

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

Six months ended 30 June 2009

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

Six months ended 30 June 2008

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

(b) Reconciliations of reportable segment profit

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

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

5. PROFIT BEFORE TAX

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

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

Notes:

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

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

6. INCOME TAX CHARGE

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

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

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

7. DIVIDENDS

During the 1H 2009, a dividend of HK$0.036 per share (equivalent to approximately RMB0.032 per share) (2008: nil), amounting to an aggregate amount of approximately RMB12,727,000 (2008: nil) was declared and paid to shareholders as the final dividend for 2008.

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

8. EARNINGS PER SHARE

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

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

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

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

11. TRADE AND BILLS PAYABLES

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

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

Included in the balance of trade payables, there was approximately RMB155,201,000 which have been settled by the endorsed bills as at 30 June 2009.

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

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

12. BORROWINGS

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

13. DISCOUNTED BILL FINANCING

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

14. SHARE CAPITAL

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

BUSINESS REVIEW

Operation

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

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

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

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

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

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

Outlook

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of paper products

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

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

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

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

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

Sales of electricity and steam

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

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

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

Cost of sales

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

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

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

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

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

Gross profit and gross profit margin

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

Other profit and loss items

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

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

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

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

Income tax

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

Net profit attributable to the equity holders of the Company

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

Liquidity and Financial Resources

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

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

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

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

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

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

Capital expenditure

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

Capital commitments and contingent liabilities

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

Use of net proceeds from the Company's IPO

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

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. During 1H 2009, the Company has complied with the provision of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman and executive Director of the Company and also the general manager of Changle Sunshine, the principal operating subsidiary of the Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, the Board considers that it is in the interest of the Group and the shareholders as a whole for him to be given the overall management responsibility of the Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to the Company at this stage and believes such arrangement will not result in any material adverse impact to the efficiency of operation and management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code during the 1H 2009.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and to provide advice and comments to the Board. The audit committee consists of the three independent non executive Directors, namely Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie is the chairman of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the 1H 2009 and discussed the financial matters with management. The unaudited condensed consolidated financial statements of the Group for the 1H 2009 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

The Group had approximately 1,450 employees as at 30 June 2009. The staff costs for 1H 2009 were RMB27.0 million (1H2008: 32.8 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 2009.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunshinepaper.com.cn) and the interim report containing all the information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to our shareholders, our business associates and all our employees for their continuous support.

By order of the Board
Wang Dongxing
Chairman

Hong Kong, 15 September 2009

As at the date of this announcement, the Directors are:

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong*
Non-executive Directors:	*Mr. Xu Fang and Mr. Wang Junfeng*
Independent non-executive Directors:	*Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye*

* *For identification purpose*