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 2008
AND
CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

INTERIM RESULTS — FINANCIAL HIGHLIGHTS

— Revenue increased by 44.7% to RMB842.6 million

— Profit attributable to equity holders of the Company increased by 64.2% to RMB72.4 million

— Net profit margin improved from 7.7% to 8.8%

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Board also announces that the principal place of business of the Company in Hong Kong has changed to 43/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong with effect from 16 September 2008.

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 2008, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2008	2007
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(audited) (restated)
Revenue	*5*	**842,611**	582,176
Cost of sales		**(704,041)**	(484,759)
Gross profit		**138,570**	97,417
Other income, gains and losses		**26,956**	6,456
Share of result of an associate		**—**	2,025
Selling and distribution expenses		**(33,618)**	(31,626)
Administrative expenses		**(37,419)**	(14,751)
Finance costs		**(13,839)**	(14,238)
Profit before tax		**80,650**	45,283
Income tax expense	*6*	**(6,614)**	(694)
Profit for the period	*7*	**74,036**	44,589
Attributable to:			
Equity holders of the Company		**72,398**	44,086
Minority interests		**1,638**	503
		74,036	44,589
Earnings per share			
— Basic *(RMB)*	*9*	**0.18**	0.26

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2008 *RMB'000* (unaudited)	At 31 December 2007 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment	*10*	**1,327,943**	891,085
Prepaid lease payments		**91,278**	88,278
Goodwill		**19,246**	19,246
Deferred tax assets		**1,158**	1,087
		1,439,625	999,696
Current assets			
Prepaid lease payments		**1,936**	1,856
Inventories		**295,767**	177,248
Loans receivable	*11*	**157,387**	—
Trade and other receivables	*12*	**641,107**	524,154
Restricted bank deposits		**213,228**	40,725
Bank balances and cash		**136,545**	648,871
		1,445,970	1,392,854
Current liabilities			
Trade and other payables	*13*	**573,467**	453,449
Payables for construction work, machinery and equipment		**98,636**	129,167
Amount due to a related party		**—**	217
Income tax payable		**2,235**	5,476
Deferred income		**884**	936
Borrowings — due within one year	*14*	**814,981**	508,053
		1,490,203	1,097,298
Net current (liabilities) assets		**(44,233)**	295,556
Total assets less current liabilities		**1,395,392**	1,295,252
Capital and reserves			
Share capital	*15*	**38,482**	37,783
Reserves		**1,181,167**	1,062,837
Equity attributable to equity holders of the Company		**1,219,649**	1,100,620
Minority interests		**30,953**	37,535
Total equity		**1,250,602**	1,138,155
Non-current liabilities			
Borrowings — due after one year	*14*	**133,954**	150,531
Deferred tax liabilities		**10,836**	6,566
		144,790	157,097
Total equity and non-current liabilities		**1,395,392**	1,295,252

NOTES:

1. General Information

China Sunshine Paper Holdings Company Limited 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") with effect from 12 December 2007.

The principal activities of China Sunshine Paper Holdings Company Limited 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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 (IAS 34) *Interim Financial Reporting*.

The Group has net current liabilities of approximately RMB44,233,000 as at 30 June 2008. The interim financial information has been prepared on a going concern basis because the directors of the Company believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities.

3. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. In the current interim period, the Company has acquired additional equity interests in its subsidiary. The accounting policy in respect of acquisition of additional interest in subsidiaries is as follows:

Acquisition of additional interest in subsidiaries

Discount arising on acquisition of additional interest in subsidiaries represents the excess of the fair value of the net assets attributable to the additional interest in subsidiaries over the cost of the acquisition.

On acquisition of additional interest in subsidiaries, the difference between the fair value of the net assets attributable to the additional interest in subsidiaries and carrying values of the underlying assets and liabilities attributable to the additional interest in subsidiaries is charged directly to capital reserve.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning 1 January 2008.

IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or 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 on 1 January 2008.

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC 13	Customer Loyalty Programmes[4]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[5]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

4. Changes in Presentation of Condensed Consolidated Financial Statements

In the current period, the presentation of revenue, cost of sales and other income adopted on the condensed consolidated income statement has been changed to disclose in a more appropriate manner.

The following income statement line items have been reclassified:

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
		(restated)
Increase in Revenue	**34,235**	296
Increase in Cost of sales	**29,833**	243
Decrease in Other income, gains and losses	**(4,402)**	(53)
Impact in the condensed consolidated income statement	**—**	—

5. Segment Information

Business segments

The Group is currently organised into two operating divisions namely production/generation and sale of paper products, electricity and steam. These divisions are the basis on which the Group reports its primary segment information. During the period ended 30 June 2008, revenue relating to sale of electricity and steam exceeds 10% of total revenue, so business segment analysis is presented. The comparative information of six months ended 30 June 2007 has been restated to conform to the current period's presentation.

The following table provides an analysis of the Group's revenue from external customers by business segments:

Six months ended 30 June 2008

	Paper products *RMB'000*	**Electricity and steam** *RMB'000*	**Eliminations** *RMB'000*	**Consolidated** *RMB'000*
Revenue				
External sales	**808,376**	**34,235**	**—**	**842,611**
Inter-segment sales	**—**	**87,044**	**(87,044)**	**—**
Total	**808,376**	**121,279**	**(87,044)**	**842,611**
Result				
Segment result	**88,893**	**898**	**—**	**89,791**
Other income, gains and losses				**15,050**
Unallocated corporate expenses				**(10,352)**
Finance costs				**(13,839)**
Profit before tax				**80,650**
Income tax expense				**(6,614)**
Profit for the period				**74,036**

Six months ended 30 June 2007

	Paper products *RMB'000*	Electricity and steam *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Revenue				
External sales	581,880	296	—	582,176
Inter-segment sales	—	925	(925)	—
Total	581,880	1,221	(925)	582,176
Result				
Segment result	51,986	53	—	52,039
Share of result of an associate	—	2,025	—	2,025
Other income, gains and losses				5,781
Unallocated corporate expenses				(324)
Finance costs				(14,238)
Profit before tax				45,283
Income tax expense				(694)
Profit for the period				44,589

Note: Inter-segment sales are charged at terms determined and agreed by both parties.

6. Income Tax Expense

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Current tax:		
People's Republic of China ("PRC")		
Enterprise Income Tax	**2,170**	428
Deferred tax:		
Current year	**4,444**	147
Attributable to a change in tax rate	**—**	119
	4,444	266
	6,614	694

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New law. The New law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's certain PRC subsidiaries from 1 January 2008.

In February 2008, the Ministry of Finance and the State Administration of Taxation issued several tax circulars which clarify the implementation of the New Law and will have an impact on foreign investment enterprises ("FIE"). For enterprises which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of a tax reductions and exemptions, such as the "two-year tax exemption followed by three-year 50% tax reduction", etc., shall continue to enjoy preferential treatment for their initial term as prescribed under the previous tax laws, administrative regulations and related documents after the New Law 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 Group, which are levied at 12.5% (2007: Nil) for the period ended 30 June 2008 based on relevant tax circulars.

7. Profit for the Period

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**24,634**	12,634
Release of prepaid lease payments	**936**	535
Loss on disposal of property, plant and equipment	**102**	3
Exchange gain	**(11,110)**	(4,921)
Exchange loss	**6,892**	1,350
Reversal of allowance for doubtful receivables	**—**	(120)
Reversal of allowance for inventories	**—**	(459)

8. Dividends

The directors do not recommend the payment of dividend during both periods.

9. Earnings Per Share

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

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share (Profit for the period attributable to equity holders of the Company)	**72,398**	44,086

	Six months ended 30 June	
	2008	2007
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**407,418**	169,744

No diluted earnings per share was presented as the exercise prices of share options were higher than the average market price during the period ended 30 June 2008 and there were no potential dilutive shares during the period ended 30 June 2007.

10. Movements in Property, Plant and Equipment

During the period, the Group spent approximately RMB31,718,000 on the acquisition of property, plant and equipment and approximately 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 RMB805,000 for proceeds of RMB703,000, resulting in a loss on disposal of RMB102,000.

11. Loans Receivable

	At 30 June	At 31 December
	2008	2007
	RMB'000	*RMB'000*
Loans receivable	**157,387**	—

The Group granted short-term entrusted loans to certain third parties with effective interest of 10% per annum. The amount is repayable within one year.

12. Trade and Other Receivables

	At 30 June	At 31 December
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**137,536**	109,768
Bills receivable	**469,912**	382,398
Other receivables and prepayments	**33,659**	31,988
	641,107	524,154

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 at the balance sheet date:

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
0 – 30 days	**106,077**	87,215
31 – 90 days	**26,253**	18,977
91 – 365 days	**5,028**	3,389
Over 1 year	**178**	187
	137,536	109,768

13. Trade and Other Payables

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Trade payables	**450,150**	387,997
Bills payable	**82,000**	—
Other payables	**41,317**	65,452
	573,467	453,449

The following is an aged analysis of trade payables at the balance sheet date:

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
0 – 90 days	**419,268**	217,154
91 – 365 days	**28,531**	166,795
Over 1 year	**2,351**	4,048
	450,150	387,997

14. Borrowings

The Group obtained new loans amounting to RMB510,649,000 (2007: RMB335,909,000), and repaid RMB220,298,000 (2007: RMB148,041,000) during the period. The newly raised loans bear interest at market rates from 5.51% to 12.17% (2007: 5.02% to 8.54%) per annum.

15. Share Capital

	Number of shares	Share capital	Shown in the condensed consolidated financial statement
		HK$'000	*RMB'000*
Ordinary shares of HK$0.1 each issued and fully paid:			
At 1 January 2007 and 30 June 2007	1	—	—
Issue of shares as consideration for the acquisition of a subsidiary pursuant to the Group Reorganisation	1,956,389	196	190
Capitalisation of loan owing to China Sunrise Paper Holdings Limited	40,751,910	4,075	3,850
Capitalisation of share premium	257,291,700	25,729	24,299
Issue of shares by way of initial public offering	100,000,000	10,000	9,444
At 31 December 2007	400,000,000	40,000	37,783
Issue of new shares	7,500,000	750	699
At 30 June 2008	407,500,000	40,750	38,482

16. Share-based Payments

On 19 November 2007, the Company granted options to the senior management and other employees to subscribe for 14,400,000 shares in the Company at an exercise price of HK$5.4 per share.

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

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

At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit and loss, with a corresponding adjustment to the share options reserve.

The Group recognised an expense of RMB6,362,000 (2007: Nil) for the six months ended 30 June 2008 in relation to share options granted by the Company.

17. Capital Commitments

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the condensed consolidated financial statements	**88,085**	89,944
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**632,130**	—

18. Related Party Transactions

(a) Name and relationship with related parties

Name	**Relationship**
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.) ("Shengshi Thermoelectricity")	Associate *(Note i)*
上海造紙機械電控技術研究所 (Shanghai Mechanical Electric Control Technology Institute) ("Shanghai Institute")	Controlled by a director and certain equity holders of the Company *(Note ii)*
昌樂衛東紙業化工有限公司 (Changle Weidong Paper Chemical Industry Co., Ltd.) ("Weidong Chemical")	Controlled by two directors of the Company *(Note iii)*

(i) Shengshi Thermoelectricity became a subsidiary of the Company since 29 June 2007.

(ii) The equity interests in Shanghai Institute held by the director and those equity holders of the Company were subsequently transferred to other parties after 30 June 2007. Thus, the company was not a related party of the Group since then.

(iii) The equity interests in Weidong Chemical held by the directors of the Company were subsequently transferred to other parties after 30 June 2007 and Weidong Chemical was not a related party of the Group since then.

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

	Six months ended 30 June	
	2008 *RMB'000*	2007 *RMB'000*
Sales of goods		
— Weidong Chemical	**—**	357
Purchase of raw materials		
— Shengshi Thermoelectricity	**—**	67,078
— Weidong Chemical	**—**	1,312
Purchase of property, plant and equipment from Shanghai Institute	**—**	842

(c) Balance with a related party

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Amount due to a shareholder	**—**	217

(d) 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	
	2008	2007
	RMB'000	*RMB'000*
Short term employee benefit	**793**	427
Retirement benefit scheme contributions	**3**	4
Equity-settled share-based payments	**6,362**	—
	7,158	431

BUSINESS REVIEW

Revenue contribution

The Group's revenue generated from the sales of white top linerboard, light-coated linerboard, core board and specialised paper products, such as packaging boxes and copper plate paper, net of sales-related taxes and discounts and sale of electricity and steam to a minority shareholder of its subsidiary. The Group's revenue increased by 44.7% from RMB582.2 million for the six months ended 30 June 2007 ("1H 2007") to RMB842.6 million for the six months ended 30 June 2008 ("1H 2008"). Profit for the period grew 65.9% from RMB44.6 million in 1H 2007 to RMB74.0 million in 1H 2008.

(a) Sales by product categories

	Six months ended 30 June					
	2008			2007		
	RMB'000	**%**	**Gross profit margin (%)**	*RMB'000*	%	Gross profit margin (%)
White top linerboard	**507,947**	**60.3**	**16.0**	448,988	77.1	16.8
Light-coated linerboard	**147,357**	**17.5**	**20.3**	5,892	1.0	12.4
Core board	**84,997**	**10.1**	**22.7**	66,054	11.4	25.1
Specialised paper products	**68,075**	**8.1**	**5.5**	60,946	10.4	7.8
Sale of electricity and steam	**34,235**	**4.0**	**12.9**	296	0.1	17.9
Total	**842,611**	**100.0**	**16.4**	582,176	100.0	16.7

White top linerboard products accounted for 60.3% and 77.1% of the Group's sales for 1H 2008 and 1H 2007, respectively. They contributed the most significant portion of the Group's sales during the period under review.

Upon the completion of the fifth production line, which can produce both white top linerboard and lighted-coated linerboard products interchangeably and with annual production capacity of 180,000 tons, in late 2006, the Group commenced to produce light-coated linerboard products in 1H 2007. Light-coated linerboard products accounted for 17.5% and 1.0% of the Group's sales for 1H 2008 and 1H 2007, respectively, which represented an increase of 24 times for their sales during the period under review compared against the same period in 2007. We are very confident that sales of light-coated linerboard products will increase their contribution to the Group's sales in the coming few years.

Core board products accounted for 10.1% and 11.4% of the Group's sales in 1H 2008 and 1H 2007, respectively. The sixth production line ("PL6") with annual production capacity of 200,000 tons core board products has recently commenced its operation in September 2008. Directors expect that the additional production output of core board products in the second half of 2008 will increase its contribution to the Group's sales in the second half of 2008.

(b) Sales by regions

While focusing on domestic sales in the past seven years, the Group has begun to widen its customer base to outside China since early 2007. For 1H 2008 and 1H 2007, domestic sales accounted for 91.2% and 90.0% of the Group's total sales, respectively, and export sales accounted for 8.8% and 10.0% of the Group's total sales, respectively.

(c) Average selling prices ("ASP") of paper products

The following table sets out the sales, sales volume and ASP of white top linerboard, light-coated linerboard and core board products (*).

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Total sales		
White top linerboard	**507,947**	448,988
Light-coated linerboard	**147,357**	5,892
Core board	**84,997**	66,054
	Tons	*Tons*
Sale volumes		
White top linerboard	**129,807**	126,215
Light-coated linerboard	**34,871**	1,602
Core board	**29,031**	28,689
	RMB	*RMB*
ASP per ton		
White top linerboard	**3,913**	3,557
Light-coated linerboard	**4,226**	3,678
Core board	**2,928**	2,302

* *No ASP of specialised paper product is presented since specialised paper products comprise a wide range of products which are measured and sold based on different standards and measurements.*

Demand from the market continued to surge. During the period under review, the Group increased the ASP of white top linerboard, lighted-coated linerboard and core board products by approximately 10.0%, 14.9% and 27.2%, respectively.

Expansion and Operational Strategy

Expansion plan

Construction of PL6 with annual production capacity of 200,000 tons core board products has been completed in August 2008. As of the date of this report, the Group has 560,000 tons annual production capacity.

During 1H 2008, the Group has commenced construction of its seventh production line ("PL7") with annual production capacity of 500,000 tons producing white top linerboard and light-coated linerboard products interchangeably.

Both PL6 and PL7 are located on the same piece of land comprising a total area of approximately 325,635 square metre adjacent to the Group's existing production facilities in Weifang, Shandong. PL6 has recently started its operation and will contribute revenue and operating profits to the Group in the second half of 2008. Construction of PL7 is estimated to be completed by the end of 2009 and will commence production in 2010. These two production lines will further reinforce the Group's leading position in producing white top linerboard, light-coated linerboard and core board products in the domestic market.

Recovered paper collection points

The development of recovered paper collection points perfectly matches with the Group's increasing use of domestic recovered paper as one of the key raw materials in the manufacture of its core products. As of today, the Group has established ten recovered paper collection points in China located as follows:

City	Number of recovered paper collection points
Beijing	3
Harbin	1
Liaocheng	1
Qingdao	4
Weifang	1
Total	10

All the collection points are strategically located for convenient transportation of recovered paper to the Group's production facility in Weifang. This enables the Group to secure a stable source of raw materials and provide cost savings.

Outlook

Total annual production capacity of the Group will be increased by nearly two times from 560,000 tons this year to estimated 1,060,000 tons in 2010. The market coverage rate of light-coated linerboard has been increasing. Certain well known brands such as manufacturer of instant noodles series, intend to jointly develop new packaging materials with the Company. The new production line for core board has commenced operation, and it is expected that the middle to high end products will significantly enhance the gross profit margin in the second half year. Ten recovered paper collection points have been established, and the possibility to build more collection points will not be ruled out according to actual needs.

The comprehensive expansion and operational strategy will continue to provide growth momentum that allows the Group to be the dominant producer of its core products that the Group is focusing on. In order to maximise the return for the Company's shareholders, the Group will enhance the competitive advantage of its core products and upgrade its operational standard continuously.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Packaging paper sector in the consumer and industrial markets has been fast growing during the period under review. The Group's revenue recorded an increase of 44.7% to RMB842.6 million for 1H 2008, as compared to RMB582.2 million for 1H 2007. Such increase was mainly driven by (i) an increase in the average selling prices of the Group's paper products; (ii) an increase in the Group's production output as a result of its increased production capacity on the existing production facilities; and (iii) a change in product mix by increasing the production and sales of light-coated linerboard products, which have higher selling prices than white top linerboard products.

Cost of sales

The Group's cost of sales includes raw materials, overhead costs relating to production and manufacturing and labour costs. The Group's cost of sales recorded an increase of 45.2% to RMB704.0 million for 1H 2008, as compared to RMB484.8 million for 1H 2007. The increase in cost of sales during the period under review was in line with the increases in sales and production output.

The following table sets out the Group's breakdown of the cost of sales:

	Six months ended 30 June			
	2008		2007	
	RMB'000	*%*	*RMB'000*	*%*
Domestic recovered paper	**218,622**	**31.1**	147,578	30.4
Overseas recovered paper	**104,956**	**14.9**	82,802	17.1
Kraft pulp	**124,894**	**17.7**	112,539	23.2
Chemicals and others	**119,397**	**17.0**	43,953	9.1
Raw materials cost subtotal	**567,869**	**80.7**	386,872	79.8
Labour costs	**18,015**	**2.5**	9,858	2.0
Overhead costs	**118,157**	**16.8**	88,029	18.2
	704,041	**100.0**	484,759	100.0

Raw materials

Domestic recovered paper, overseas recovered paper and kraft pulp sourced from North and South America, Russia and Canada are the principal raw materials used in the manufacture of the Group's products. Raw material costs, representing the major portion of the cost of sales, were RMB567.9 million and RMB386.9 million, respectively, and accounted for 80.7% and 79.8% of the Group's cost of sales for 1H 2008 and 1H 2007, respectively. Raw material costs increased by 46.8% during the period under review, mainly due to the increased production volume and higher average purchase price of raw materials.

Overhead costs

Overhead costs relating to production and manufacturing include utility expenses, depreciation charges, other factory overheads and related expenses. Overhead costs were RMB118.2 million and RMB88.0 million, respectively, and accounted for 16.8% and 18.2% of the Group's cost of sales, respectively, for 1H 2008 and 1H 2007.

Gross profit and gross profit margin

As a result of the foregoing, the gross profit increased by RMB41.2 million to RMB138.6 million in 1H 2008 from RMB97.4 million in 1H 2007. The gross profit margin was 16.4% and 16.7% for 1H 2008 and 1H 2007, respectively.

Other income, gains and losses

The increase in other income, gain and losses of RMB20.5 million was mainly due to VAT refund in respect of the Group's purchase of domestic machinery and equipment for the fifth production line in prior years of RMB9.5 million and an increase in interest income of RMB7.8 million during 1H 2008.

Selling and distribution expenses

Selling and distribution expenses mainly comprise transportation costs (rail, road and marine), rentals and utilities of sales offices, salary costs of the Group's sales and marketing staff and related expenses. As a percentage of sales, the Group's selling and distribution costs were 4.0% and 5.4% for 1H 2008 and 1H 2007, respectively.

Administrative expenses

Administrative expenses mainly consist of administrative staff salaries and their related expenses, administrative fixed assets depreciation, professional charges, and office utilities and consumables. As a percentage of sales, administrative expenses were 4.4% and 2.5% for 1H 2008 and 1H 2007, respectively. The increase in such percentage was mainly due to share-based payments of RMB6.4 million recognised during 1H 2008 in accordance with IFRS 2 "Share-based Payment", primarily from the share options issued under the Pre-IPO Share Option Scheme of the Company on 19 November 2007.

Income tax expense

The income tax expenses in 1H 2008 increased by RMB5.9 million to RMB6.6 million for 1H 2008 from RMB0.7 million for 1H 2007. Notwithstanding this, the effective tax rate in 1H 2008 was only 8.2%. Such low effective tax rate resulted primarily from income tax benefits applicable to Changle Century Sunshine Paper Industry Co., Ltd. ("Changle Sunshine"), a member of the Group, since the second half year of 2006.

Profit for the period and net profit attributable to the equity holders of the Company

As a result of the factors discussed above, the profit for 1H 2008 and the net profit attributable to the equity holders of the Company for 1H 2008 increased by RMB29.4 million and RMB28.3 million to RMB74.0 million and RMB72.4 million, respectively, from RMB44.6 million and RMB44.1 million for 1H 2007. Net profit margin for 1H 2008 and 1H 2007 was 8.8% and 7.7%, respectively.

Liquidity and Capital Resources

Bank balances and cash, and restricted bank deposits

Total bank balances and cash, and restricted bank deposits of the Group decreased by RMB339.8 million to RMB349.8 million as at 30 June 2008 (31 December 2007: RMB689.6 million). The decrease was primarily due to (i) payments to suppliers to acquire property, plant and equipment of RMB492.8 million; and (ii) an increase in loans receivable of RMB157.4 million during the period under review. Subsequent to the period ended 30 June 2008, approximately RMB86.9 million of the loans receivable were received as of today.

Borrowings

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers. As at 30 June 2008, the Group had total borrowings of RMB948.9 million (31 December 2007: RMB658.6 million). These borrowings were secured by corporate guarantees and assets of the Group. As at 30 June 2008, the Group had credit facilities totaling RMB1,542.9 million, of which RMB594.0 million were unutilised (31 December 2007: credit facilities of RMB1,154.8 million, of which RMB496.2 million were unutilised).

Net current (liabilities) assets

The Group has net current liabilities of RMB44.2 million as at 30 June 2008 as compared to its net current assets of RMB295.6 million as at 31 December 2007. The Group's current liabilities exceeded current assets of RMB44.2 million as at 30 June 2008 because the Group raised new short-term borrowings to finance capital expenditures in purchasing production facilities and equipment during the period under review.

Net borrowings to equity ratio

The Group's net borrowings to equity ratio, being net borrowings (total borrowings net of bank balances, deposits and cash) over total equity, was 47.9% as at 30 June 2008 (31 December 2007: net cash position). The net cash position as at 31 December 2007 was mainly due to the net proceeds from the initial public offering of the Company ("IPO") of RMB521.2 million received on 12 December 2007 which has not yet been utilised by the Group as at 31 December 2007. As mentioned in the paragraph headed "Bank balances and cash, and restricted bank deposits" above, the Group began to utilise its net proceeds from IPO to fund its development plans.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB720.2 million in respect of expenditure for acquisition of property, plant and equipment, which included capital expenditure of RMB88.1 million contracted but not provided for, as at 30 June 2008 (31 December 2007: RMB89.9 million). The Board has mid to long-term domestic and foreign borrowings under arrangement to fulfil the Group's capital commitments.

As at 30 June 2008, the Group had no significant contingent liabilities.

Use of net proceeds from the Company's IPO

The Company was listed on the Main Board of the Stock Exchange on 12 December 2007. The net proceeds from the Company's listing and issue of new shares (after the partial exercise of over-allotment option on 3 January 2008) amounted to HK$595.3 million (equivalent to approximately RMB562.2 million). The net proceeds have been applied in accordance with the proposed applications set out in the section headed "Use of proceeds" contained in the Company's prospectus dated 29 November 2007, as follows:

	Net proceeds raised		**Utilised proceeds**		**Unutilised proceeds**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Establishment of PL7	493,000	87.7	150,000	71.4	343,000	97.4
Expansion of recovered paper collection points	44,800	8.0	44,800	21.3	—	—
Research and development efforts	19,600	3.5	15,000	7.2	4,600	1.3
Installation of enterprise resource planning system	4,800	0.8	200	0.1	4,600	1.3
	562,200	100.0	210,000	100.0	352,200	100.0

As at 30 June 2008, the unutilised proceeds are primarily deposited with licensed banks as short-term deposits in China and Hong Kong.

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 maximising shareholders' interests. During the six-month period ended 30 June 2008 (the "Current Period"), the Company has complied with the provision of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman and executive Director of the Company and also the general manager of Changle Sunshine, the principal operating subsidiary of the Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, the Board considers that it is in the interest of the Group and the shareholders as a whole for him to be given the overall management responsibility of the Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to the Company at this stage and believes such arrangement will not result in any material adverse impact to the efficiency of operation and management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

AUDIT COMMITTEE

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group had 1,490 full-time employees. The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. The employee's remuneration packages are generally determined based on their job nature and position with reference to market standards. Employees also receive certain welfare benefits. The Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

DIVIDEND

The Directors do not recommend the payment of a dividend for the Current Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Current Period, 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 all shareholders, customers, suppliers, banks, professional parties and employees of the Group for their continuous support.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Board also announces that the principal place of business of the Company in Hong Kong has changed to 43/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong with effect from 16 September 2008.

By order of the Board
Wang Dongxing
Chairman

Hong Kong, 16 September 2008

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 Nengguang*
Independent non-executive Directors:	*Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye*

* *For identification purpose*