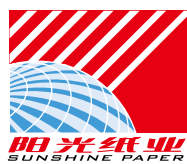


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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue was RMB1,761.0 million for 1H 2014, representing a slightly decrease by approximately 6.0%, as compared to RMB1,872.8 million for the corresponding period last year.
- Gross profit margin was 19.3%, representing an increase of 3.1 percentage points as compared to 16.2% for the corresponding period last year.
- Profit attributable to the owners of the Company decreased by approximately 46.6% to RMB11.0 million, as compared to RMB20.6 million for the corresponding period last year.
- The Board resolved to declare an interim dividend of HK1 cent per ordinary share of the Company.

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 2014 (together with comparative figures of the Group for the six months ended 30 June 2013) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June 2014 <i>NOTES</i> <i>RMB'000</i> (unaudited)	Six months ended 30 June 2013 <i>RMB'000</i> (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
		<i>RMB</i>	<i>RMB</i>
Earnings per share	11		
— Basic		0.01	0.03
— Diluted		N/A	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2014	At 31 December 2013
	NOTES	RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets			
Property, plant and equipment		3,473,385	3,348,739
Prepaid lease payments		254,694	254,680
Investment properties		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		279,602	241,001
		<u>4,451,712</u>	<u>4,280,860</u>
Current assets			
Inventories		381,107	285,521
Trade receivables	12	482,660	360,495
Prepaid lease payments		5,640	7,632
Bills receivable	13	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
		<u>3,482,051</u>	<u>3,325,826</u>
Current liabilities			
Trade payables	14	603,178	517,470
Bills payable	14	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	15	110,020	102,679
Deferred income — current portion		2,365	2,367
Derivative financial instruments		—	1,149
Discounted bill financing	16	1,875,831	1,671,026
Bank borrowings — due within one year	17	2,894,552	2,831,940
Short-term financing notes	18	300,000	300,000
Other borrowings		14,000	14,000
		<u>6,113,474</u>	<u>5,695,639</u>
Net current liabilities		<u>(2,631,423)</u>	<u>(2,369,813)</u>
Total assets less current liabilities		<u>1,820,289</u>	<u>1,911,047</u>

		At 30 June 2014 <i>NOTES</i> <i>RMB'000</i> (unaudited)	At 31 December 2013 <i>RMB'000</i> (audited)
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	15	91,691	92,573
Bank borrowings — due after one year	17	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

NOTES

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 RMB2,631,423,000 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 19) 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.

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				Electricity and steam RMB'000	Total RMB'000
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised paper products 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	<u>527,895</u>	<u>807,222</u>	<u>199,208</u>	<u>141,194</u>	<u>257,982</u>	<u>1,933,501</u>
Segment profit	<u>99,706</u>	<u>153,798</u>	<u>39,242</u>	<u>31,809</u>	<u>28,288</u>	<u>352,843</u>

Six months ended 30 June 2013

	Paper products				Electricity and steam RMB'000	Total RMB'000
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised paper products 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	<u>617,991</u>	<u>819,577</u>	<u>217,723</u>	<u>145,885</u>	<u>281,485</u>	<u>2,082,661</u>
Segment profit	<u>87,236</u>	<u>139,091</u>	<u>38,562</u>	<u>21,734</u>	<u>28,840</u>	<u>315,463</u>

(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 intragroup sales	(26,504)	(29,542)
	<u>326,339</u>	<u>285,921</u>
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	—
	<u>19,148</u>	<u>31,589</u>
Consolidated profit before tax		

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 and, other gains and losses, distribution and selling expenses, administrative expenses, finance costs and share of profit of a joint venture, to segments 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 segment 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
	<u>42,170</u>	<u>62,986</u>

Note:

- 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 company 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.

6. OTHER GAINS AND 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
	<u>2,251</u>	<u>10,965</u>

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
	<u>176,637</u>	<u>147,172</u>
Less: Interest capitalised in construction in progress	(7,494)	(1,927)
	<u>169,143</u>	<u>145,245</u>

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.

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	<u>4,752</u>	<u>6,333</u>

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.

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)	<u>70,539</u>	<u>71,761</u>
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	<u>2,132</u>	<u>2,441</u>

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 HK 1 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.

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)	<u>11,009</u>	<u>20,555</u>
	Six months ended 30 June 2014 '000	Six months ended 30 June 2013 '000
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	<u>N/A</u>	<u>—</u>
Number of ordinary shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>802,588</u>

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. 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	<u>5,047</u>	<u>5,001</u>
	<u>482,660</u>	<u>360,495</u>

13. 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
	<u>578,447</u>	<u>687,163</u>

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 16).

14. 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
	<u>603,178</u>	<u>517,470</u>

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

15. 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
	<u>201,711</u>	<u>195,252</u>

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.

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

16. DISCOUNTED BILL FINANCING

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

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.

17. 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).

18. 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.

19. 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.

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	
	<i>RMB'000</i>	<i>(%)</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>	<i>(%)</i>
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 was 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 was 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 was approximately RMB2,479.9 million as at 30 June 2014. (31 December 2013: RMB2,268.8 million)

In view of continues 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 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.

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

Our 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
China Sunshine Paper Holdings Company Limited
Wang Dongxing
Chairman

Shanghai, China, 29 August 2014

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

Executive Directors:	Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Ci Xiaolei
Non-executive Directors:	Mr. Zhang Licong and Mr. Wang Junfeng
Independent non-executive Directors:	Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie

* *For identification purpose*