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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 RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

- Revenue increased by 7.0% to RMB1,880 million as compared to the corresponding period last year
- Profit attributable to the owners of the Company of RMB16.7 million
- Basic earnings per share of RMB0.02
- Net assets value per share of RMB1.80

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 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June 2012 <i>RMB'000</i> (unaudited)	Six months ended 30 June 2011 <i>RMB'000</i> (unaudited)
	<i>Notes</i>		
Revenue	4	1,880,435	1,757,438
Cost of sales		<u>(1,574,212)</u>	<u>(1,433,976)</u>
Gross profit		306,223	323,462
Other gains and losses		(2,209)	8,104
Other income		69,090	14,109
Selling and distribution expenses		(102,589)	(88,745)
Administrative expenses		(66,347)	(64,538)
Other expenses		(539)	(1,165)
Finance costs	5	<u>(179,529)</u>	<u>(96,985)</u>
Profit before tax	6	24,100	94,242
Income tax expenses	7	<u>(2,276)</u>	<u>(18,252)</u>
Profit and total comprehensive income for the period		<u>21,824</u>	<u>75,990</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		16,678	70,737
Non-controlling interests		<u>5,146</u>	<u>5,253</u>
		<u>21,824</u>	<u>75,990</u>
		<i>RMB</i>	<i>RMB</i>
Earnings per share	9		
— Basic		<u>0.02</u>	<u>0.09</u>
— Diluted		<u>0.02</u>	<u>0.09</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
	Notes		
Non-current assets			
Property, plant and equipment		3,632,897	3,387,027
Prepaid lease payments		186,267	169,787
Goodwill		18,692	18,692
Deferred tax assets		8,397	8,540
Deposit for acquisition of property, plant and equipment		—	50,000
		<u>3,846,253</u>	<u>3,634,046</u>
Current assets			
Prepaid lease payments		3,801	3,465
Inventories		663,129	625,107
Loan receivables		50,000	—
Trade receivables	10	508,505	362,326
Bills receivable	11	539,032	783,666
Prepayments and other receivables		348,136	384,637
Income tax recoverable		6,769	1,208
Restricted bank deposits		880,229	935,471
Bank balances and cash		250,594	248,278
		<u>3,250,195</u>	<u>3,344,158</u>
Current liabilities			
Trade payables	12	538,661	551,362
Bills payable	12	151,480	206,500
Other payables		104,910	180,011
Payable for construction work, machinery and equipment		71,490	156,160
Income tax payable		3,600	783
Obligations under finance leases — current portion		72,148	53,624
Deferred income — current portion		2,134	1,995
Derivative financial instruments		881	1,380
Discounted bill financing	13	1,400,847	1,188,542
Bank and other borrowings — due within one year	14	2,461,212	2,092,456
		<u>4,807,363</u>	<u>4,432,813</u>
Net current liabilities		<u>1,557,168</u>	<u>1,088,655</u>
Total assets less current liabilities		<u>2,289,085</u>	<u>2,545,391</u>
Capital and reserves			
Share capital		72,351	72,351
Reserves		1,368,832	1,368,855
Equity attributable to owners of the Company		1,441,183	1,441,206
Non-controlling interests		78,295	73,155
Total equity		<u>1,519,478</u>	<u>1,514,361</u>
Non-current liabilities			
Obligations under finance lease — non-current portion		173,139	170,656
Bank borrowings — due after one year	14	559,848	823,120
Deferred income — non-current portion		26,480	27,371
Deferred tax liabilities		10,140	9,883
		<u>769,607</u>	<u>1,031,030</u>
Total equity and non-current liabilities		<u>2,289,085</u>	<u>2,545,391</u>

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 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 of Hong Kong Limited.

The Group has net current liabilities of approximately RMB1,557,168,000 as at 30 June 2012. The directors are of the opinion that, taking into account the present available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of issuance of the condensed consolidated financial statements. Hence, 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 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 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

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

- amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets; and
- amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets;

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

4. SEGMENT INFORMATION

(a) Segment result

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

Six months ended 30 June 2012

	White top linerboard <i>RMB'000</i>	Paper products Light- coated linerboard <i>RMB'000</i>	Core board <i>RMB'000</i>	Specialized paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	567,442	840,177	270,267	129,114	73,435	1,880,435
Inter-segment revenue	—	—	—	—	257,980	257,980
Segment revenue	<u>567,442</u>	<u>840,177</u>	<u>270,267</u>	<u>129,114</u>	<u>331,415</u>	<u>2,138,415</u>
Segment profit	<u>86,473</u>	<u>120,193</u>	<u>49,538</u>	<u>36,694</u>	<u>35,215</u>	<u>328,113</u>

Six months ended 30 June 2011

	White top linerboard <i>RMB'000</i>	Paper products Light- coated linerboard <i>RMB'000</i>	Core board <i>RMB'000</i>	Specialized paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	624,995	642,209	291,094	138,563	60,577	1,757,438
Inter-segment revenue	—	—	—	—	241,948	241,948
Segment revenue	<u>624,995</u>	<u>642,209</u>	<u>291,094</u>	<u>138,563</u>	<u>302,525</u>	<u>1,999,386</u>
Segment profit	<u>104,291</u>	<u>103,600</u>	<u>72,991</u>	<u>37,715</u>	<u>31,095</u>	<u>349,692</u>

(b) Reconciliations of segment profit

	Six months ended 30 June 2012 <i>RMB'000</i>	Six months ended 30 June 2011 <i>RMB'000</i>
Profit		
Segment profit	328,113	349,692
Unrealised profit on intragroup sales	<u>(48,761)</u>	<u>(44,094)</u>
	279,352	305,598
Selling and distribution expenses	(102,589)	(88,745)
Administrative expenses	(58,599)	(57,071)
Other gains and losses	(2,875)	8,104
Other income	66,214	13,246
Other expenses	(539)	(1,165)
Finance costs	<u>(156,864)</u>	<u>(85,725)</u>
Consolidated profit before taxation	<u>24,100</u>	<u>94,242</u>

Segment profit represents the gross profit earned by each paper product segments and the profit before tax earned by electricity and steam segment separately. The Group does not allocate selling and distribution expenses, administration expenses, finance costs, other gains and losses, other income and other expenses to paper products segment and does not allocate income tax expense to both the paper product segments or the electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

5. FINANCE COSTS

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Interest expenses on:		
Discounted bill financing	71,110	21,005
Bank and other borrowings	111,186	82,664
Finance leases	9,574	7,241
	<u>191,870</u>	<u>110,910</u>
Less: Interest capitalised in construction in progress	<u>(12,341)</u>	<u>(13,925)</u>
	<u><u>179,529</u></u>	<u><u>96,985</u></u>

Borrowing costs capitalised during the period ended 30 June 2012 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.17% (six months ended 30 June 2011: 5.86%) per annum to expenditure on construction in progress.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Depreciation of property, plant and equipment	95,251	80,808
Release of prepaid lease payments	2,043	1,545
Loss on disposal of property, plant and equipment	1,099	1,366
Allowance for doubtful debts	—	258
Interest income	(15,463)	(7,089)
Government grants (<i>note</i>)	(48,457)	(2,111)
Net exchange loss (gain)	3,379	(8,513)
Changes in fair value of derivative financial instruments	<u>(470)</u>	<u>(163)</u>

Note: During the six months ended 30 June 2012, 山東世紀陽光紙業集團有限公司 (Shangdong Century Sunshine Paper Group Co., Ltd.) (“Century Sunshine”), subsidiary of the Company, was granted unconditional government subsidy of approximately RMB31,147,000 from local government. During the six months ended 30 June 2012, 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd), subsidiary of the Company, was entitled to value-added tax refund of approximately RMB16,119,000 from local government.

7. INCOME TAX EXPENSES

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Current income tax		
People's Republic of China ("PRC")		
Enterprise Income Tax	1,876	16,304
Deferred tax charge	400	1,948
	<hr/>	<hr/>
Charge for the period	2,276	18,252

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 Company is 25% from 1 January 2008 onwards.

Pursuant to the approval of the Jiangsu State Tax Bureau, 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), which became a foreign investment enterprise in 2006, is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in next three years. Kunshan Sunshine commenced its first profit-making year in 2008 and accordingly, the applicable income tax rate for the six months ended 30 June 2012 was 12.5% (six months ended 30 June 2011: 12.5%).

In 2010, Century Sunshine is recognised as Advanced Technology Enterprise which is approved by Science Technology Bureau, Finance Bureau and State Administration of Taxation in Shandong province. Pursuant to the relevant laws and regulations in the PRC, Century Sunshine is entitled to enterprise income tax rate of 15% for three years since 2010.

No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2012 and 2011 as the Group did not have any assessable profit arising in Hong Kong during both periods.

8. DIVIDENDS

During the current interim period, a final dividend of HK\$2.5 cents per share (equivalent to approximately RMB2.1 cents per share) in respect of the year ended 31 December 2011 (six months ended 30 June 2011: HK\$5 cents per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB16,854,000 (six months ended 30 June 2011: RMB33,404,000). The dividend was paid out from the Company's share premium. In the opinion of the directors of the Company, such distribution is in compliance with the Articles of Association adopted by the Company and also the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

9. 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 2012 RMB'000	Six months ended 30 June 2011 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>16,678</u>	<u>70,737</u>
	Six months ended 30 June 2012 '000	Six months ended 30 June 2011 '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>—</u>	<u>160</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>802,588</u>	<u>802,748</u>

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 2012.

10. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an 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 2012 RMB'000	At 31 December 2011 RMB'000
0–30 days	348,577	298,702
31–90 days	138,780	44,988
91–365 days	19,046	16,961
Over 1 year	<u>2,102</u>	<u>1,675</u>
	<u>508,505</u>	<u>362,326</u>

11. 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 2012 RMB'000	At 31 December 2011 RMB'000
0–90 days	286,014	475,402
91–180 days	253,018	308,264
	<u>539,032</u>	<u>783,666</u>

As at 30 June 2012, the Group has discounted bills receivable of RMB1,400,847,000 (31 December 2011: RMB1,188,542,000) including bills receivable from subsidiaries within the Group to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the discounting as discounted bill financing (see Note 13).

12. TRADE AND BILLS PAYABLES

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
0–90 days	433,466	352,358
91–365 days	95,679	155,662
Over 1 year	9,516	43,342
	<u>538,661</u>	<u>551,362</u>

All the bills payable as at 30 June 2012 are trading nature and will mature within six months.

13. DISCOUNTED BILL FINANCING

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Discounted bill financing	<u>1,400,847</u>	<u>1,188,542</u>
Comprising:		
Discounted bills receivable from third party	266,497	226,442
Discounted bills receivable from subsidiaries of the Company	<u>1,134,350</u>	<u>962,100</u>
Total	<u>1,400,847</u>	<u>1,188,542</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 Company to the suppliers and other subsidiaries within the Group were discounted to the banks for financing.

14. BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,456,895,000 (six months ended 30 June 2011: RMB1,026,405,000), and repaid RMB1,351,507,000 (six months ended 30 June 2011: RMB676,606,000). The newly raised loans bear interest at market rates from 2.1% to 9.18% per annum (six months ended 30 June 2011: 2% to 10% per annum).

Included in the new loans obtained during the current interim period, a loan of RMB200,000,000 was borrowed from a trust company for one year at an effective interest rate of 7.87% per annum. The loan was guaranteed by an independent third party (the “Guarantor”). The Group, simultaneously, granted a short-term loan of RMB50,000,000 to the Guarantor.

BUSINESS REVIEW

Operation

Global economy remained gloomy and amid concerns for a dip into recession during the first half of 2012. China's economy continued to be affected by a decline in its manufacturing growth and the shrinking European's economy. The demand of packaging paper from local printing and packaging box manufacturers in China was inevitably affected by the unfavorable global economic climate. The weakened demand of packaging paper and the intense price competition induced pressure on the average selling price and profit margin of our Group's paper products. In spite of the aforesaid challenging business environment, in terms of sale volume, our Group has still been able to meet our target set at the beginning of this year. Also, our Group was able to record profit for the four months ended 30 June 2012, as compared to a net loss recorded for the first two months 2012.

Our Group's production lines, namely PL 1 to PL 5, have operated close to their optimum levels during the first half of 2012. Our Group's steam and power plant and recovered paper collection points continued to provide stable and low-cost steam, electricity and domestic recovered paper, respectively for our production activities. In December 2011, our Group had successfully bid in an open auction for a production line with an annual designed production capacity of approximately 35,000 tons of decorative paper. Installation and pre-production works for this production line are now in progress. We expect that this production line will commence its commercial production in the fourth quarter of 2012.

Production lines of our Group as at 30 June 2012

Production line	Location	Paper product	Designed annual production capacity (tons) ^(a)
PL 1	Weifang	White top linerboard	110,000
PL 2 ^(b)	Weifang	White top linerboard and Light-coated linerboard ^(c)	220,000
PL 3	Weifang and Kunshan	Specialized paper products	70,000
PL 4	Weifang	Core board	200,000
PL 5	Weifang	Light-coated linerboard ^(c)	500,000
			<hr/>
			1,100,000

Notes:

^(a) Approximate numbers

^(b) Production of white top linerboard and light-coated linerboard is interchangeable

^(c) Included light-coated linerboard of 150g/m² to 220g/m² and advanced light-coated linerboard of 125g/m² to 250g/m²

Outlook

In July 2012, the National Development and Reform Commission of People's Republic of China (the "PRC") announced the plan to eliminate inefficient paper manufacturers with an aggregated production capacity of 8.8 million tons. Our Group believes such action could promote the development of paper industry in China by significantly reducing the number of small and inefficient players.

According to the statistics collated by the China Paper Association, our Group was one of the top fifteen largest paper manufacturers in China in 2011 in terms of production output. Our Group is well-positioned to capture the business opportunities from the rebound of the paper industry in China. Meanwhile, our Group will continue to implement measures to tighten cost controls in order to improve our profitability. Our Group will also further improve our inventory and trade receivables management to enrich our operating cash flow.

Our Group remains cautiously optimistic about China's economy as the global economy remains uncertain. However, in order to maintain a steady and robust economic development, the PRC Government will continue to take stimulating measures and relax its administrative lending barriers, such as the downward adjustment in the deposit reserve ratio, the RMB benchmark deposit and lending rates, to loosen the liquidity in the monetary market with an aim to boost infrastructure investment and domestic consumption, which in turn may stimulate the demand of the packaging papers in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Total Revenue

Our Group was principally engaged in two different businesses, namely sales of paper products and sales of electricity and steam, during the first six months 30 June 2012 ("1H 2012"). For 1H 2012, our Group's total revenue from these two businesses was RMB1,880.4 million, representing an increase of approximately 7.0% as compared to RMB1,757.4 million for the corresponding period in 2011 ("1H 2011").

Sales of paper products

Driven by the increase in sales volume of paper products, our Group's revenue on sales of paper products was RMB1,807.0 million for 1H 2012, representing an increase of approximately 6.5% as compared to RMB1,696.9 million for 1H 2011.

In terms of sales volume, our Group reached approximately 490,000 tons for 1H 2012, representing an increase of approximately 14.0%, as compared to 430,000 tons for 1H 2011. However, the average selling price ("ASP") of all paper products recorded a decrease for 1H 2012 as compared to that for 1H 2011.

Sales of white top linerboard decreased by approximately 9.2%, from RMB625.0 million for 1H 2011 to RMB567.4 million for 1H 2012. Sales of core board recorded a decrease by 7.1%, from RMB291.1 million for 1H 2011 to RMB270.3 million for 1H 2012. Sales of specialized paper products was RMB129.1 million for 1H 2012, representing a decrease of 6.9%, as compared to RMB138.6 million for 1H 2011. Due to the full operation of PL 5, sales of light-coated linerboard recorded an increase from RMB642.2 million for 1H 2011 to RMB840.2 million for 1H 2012.

Sales of electricity and steam

Sales of electricity and steam was mainly made to a minority shareholder of a subsidiary of our Company. Sales of electricity and steam was RMB73.4 million and RMB60.6 million, respectively, for 1H 2012 and 1H 2011.

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

	1H 2012			1H 2011		
	<i>RMB'000</i>	Gross profit margin (%)	%	<i>RMB'000</i>	Gross profit margin (%)	%
White top linerboard	567,442	16.0	30.1	624,995	17.9	35.6
Light-coated linerboard*	840,177	16.6	44.7	642,209	18.0	36.5
Core board	270,267	17.1	14.4	291,094	22.6	16.6
Specialized paper products	129,114	12.6	6.9	138,563	15.3	7.9
Subtotal for sales of paper products	1,807,000	16.2	96.1	1,696,861	18.5	96.6
Sales of electricity and steam	73,435	18.2	3.9	60,577	16.0	3.4
Total revenue of the Group	1,880,435	16.3	100.0	1,757,438	18.4	100.0

The below table set forth information relating the ASP of our Group's paper products:

	1H 2012 <i>RMB per ton</i>	1H 2011 <i>RMB per ton</i>	Increase/ (Decrease)
White top linerboard	3,860	4,100	(5.8%)
Light-coated linerboard*	3,960	4,140	(4.3%)
Core board	2,830	3,300	(14.2%)

* Included light-coated linerboard of 150g/m² to 220g/m² and advanced light-coated linerboard of 125g/m² to 250g/m².

Cost of sales

Cost of sales, mainly comprised of raw materials costs, labour costs and manufacturing overheads, increased by approximately 9.8%, from RMB1,434.0 million for 1H 2011 to RMB1,574.2 million for 1H 2012, which was in line with the increase in sale and production volume.

With respect to the paper products segment, raw materials costs represented approximately 76% (1H2011: 75.0%) of the cost of sales. Domestic recovered paper, overseas recovered paper, and kraft pulp accounted for approximately 25.0%, 22.0% and 18.0%, respectively, of the cost of sales. Chemicals and additives consumed during the manufacturing process accounted for approximately 11.0% of the cost of sales.

Manufacturing overhead costs mainly comprised of depreciation, energy cost, consumables, repairs and maintenance, and other overhead related expenses. As a percentage of cost of sales, manufacturing overhead costs increased from approximately 18.0% for 1H 2011 to approximately 22.0% for 1H 2012.

The remaining 2.0% of cost of sales represented labour costs.

Gross profit and gross profit margin

The gross profit of our Group decreased from RMB323.5 million for 1H 2011 to RMB306.2 million for 1H 2012. The overall gross profit margin of our Group also recorded a decrease from 18.4% for 1H 2011 to 16.3% for 1H 2012. With respect to the paper products segment, its gross profit margin also decreased from 18.5% for 1H2011 to 16.2% for 1H 2012. The decrease in gross profit margin reflected the decrease in ASP of our Group's paper products.

Other profit and loss items

Other income increased from RMB14.1 million for 1H 2011 to RMB69.1 million for 1H 2012. The increase was mainly driven by the increase in subsidy income of RMB16.1 million in relation to the value-added tax refund for the purchase of domestic recovered paper and the government subsidy of RMB31.1 million.

Distribution and selling expenses primarily consisted of transportation costs and staff costs relating to sales and marketing. Distribution and selling expenses increased by approximately 15.7%, from RMB88.7 million for 1H 2011 to RMB102.6 million for 1H 2012. As a percentage of total revenue, the distribution and selling expenses slightly increased from 5.1% for 1H 2011 to 5.5% for 1H 2012.

Administrative expenses were RMB66.3 million for 1H 2012 as compared to that of RMB64.5 million for 1H 2011. As a percentage of total revenue, the administrative expenses fell from 3.7% for 1H 2011 to 3.5% for 1H 2012.

Finance costs was RMB179.5 million for 1H 2012, representing an increase of 85.1%, as compared to RMB97.0 million for 1H 2011. The increase was primarily due to (i) the increase in outstanding bank borrowings, (ii) the higher bills discount charges during 1H 2012, and (iii) the decrease in interest capitalization due to the completion of PL 5.

Income tax expenses

Income tax expenses decreased by approximately 87.4%, from RMB18.3 million for 1H 2011 to RMB2.3 million for 1H 2012. Effective tax rate also decreased from 19.4% for 1H 2011 to 9.4% for 1H 2012.

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 2012 was RMB21.8 million and RMB16.7 million, respectively, representing a decrease of approximately 71.3% and 76.4% as compared to RMB76.0 million and RMB70.7 million, respectively, for 1H 2011.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital

Internally generated operating cash flow and credit facilities provided by our principal bankers are the main source of funding to meet our Group's working capital requirements. As at 30 June 2012, our Group had bank balances and cash, including restricted bank deposits, of approximately RMB1,130.8 million, which was comparable with that of RMB1,183.7 million as at 31 December 2011.

Inventories increased by RMB38.0 million, from RMB625.1 million as at 31 December 2011 to RMB663.1 million as at 30 June 2012. The increase in absolute amount of inventories was mainly due to the increase in operating size of our Group. The inventory turnover for 1H 2012 was 75 days, which was comparable to 69 days for the fiscal year 2011.

Trade receivable increased from RMB362.3 million as at 31 December 2011 to RMB508.5 million as at 30 June 2012. The trade receivable turnover for 1H 2012 was 42 days (Fiscal year 2011: 27 days), which was slightly lower than the longest credit period of 45 days given to our Group's customers.

As at 30 June 2012, our Group recorded net current liabilities of RMB1,557.2 million. Our Group's current ratio was 0.68 times and 0.75 times, respectively, as at 30 June 2012 and 31 December 2011. In view of the net cash inflow from operating activities of RMB290.8 million during 1H 2012 and the current available banking facilities at 30 June 2012, our Group still possessed sufficient resources to meet our Group's working capital requirement.

Cash flows

There was an impressive improvement in cash flows performance during 1H 2012. Our Group recorded a net cash inflow from operating activities of RMB290.8 million for 1H 2012 as compared to net cash outflow from operating activities of RMB48.9 million for 1H 2011.

Our Group recorded a net increase in cash and cash equivalents of RMB2.3 million for 1H 2012, representing a combined effect of the aforesaid net cash inflow from operating activities of RMB290.8 million, net cash used in investing activities of RMB412.7 million and net cash from financing activities of RMB124.2 million.

Condensed consolidated statement of cash flows for the six months ended 30 June 2012 and 2011.

	1H 2012 RMB'000	1H 2011 RMB'000
Net cash from (used in) operating activities	290,793	(48,865)
Net cash used in investing activities	(412,666)	(517,529)
Net cash from financing activities	124,189	569,890
Net increase in cash and cash equivalents	2,316	3,496
Cash and cash equivalents at beginning of the period	248,278	225,677
Cash and cash equivalents at end of the period*	250,594	229,173

* Excluded restricted bank deposits

Gearing and financial resources

The net gearing ratio (calculated based on the total of bank and other borrowings and obligations under finance leases net of bank balances and cash and restricted bank deposits divided by the total equity) increased from 129.2% as at 31 December 2011 to 140.5% as at 30 June 2012. Our Group strives to improve net gearing ratio and to maintain a healthy balance sheet by utilizing operating cash inflow to repay bank borrowings.

As at 30 June 2012, the unutilized banking facilities available to our Group was approximately RMB1,606.8 million. (RMB1,191.3 million as at 31 December 2011)

Capital expenditure

During 1H 2012, our Group spent approximately RMB343.1 million to enhance the productivity of existing plant and for construction in progress for future development.

Capital commitments and contingent liabilities

Our Group had capital commitments of RMB42.2 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 30 June 2012.

Our Group had no material contingent liabilities as at 30 June 2012.

Events after the end of the interim period

On 3 July 2012, Century Sunshine has entered into a joint venture (“JV”) agreement with two independent third parties for the formation of a JV company. Pursuant to the JV agreement, upon establishment, the JV company will be owned as to 51% by Century Sunshine, 29% and 20% by the two independent parties, respectively. The principal activity of the JV company is manufacture and sales of specialty paper in the PRC. The registered capital of the JV company will be RMB203 million and will be contributed by the owners based on their respective interests in the JV company by either cash or physical assets. For further details of the transaction, please refer to the announcement of the Company dated 3 July 2012

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 the growth of the Group and for safeguarding and maximizing shareholders’ interests. During 1H 2012, our Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Old CG Code”) during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the “New CG Code”) during the period from 1 April 2012 to 30 June 2012 contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation from Code Provision A2.1 of the Old CG Code from 1 January to 31 March 2012.

Code Provision A2.1 of both the Old CG Code and the New CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive and Mr. Wang Dongxing is the chairman of our Board. He has been the general manager of Century Sunshine, the principal operating subsidiary of our Group until 31 March 2012. In view of Mr. Wang’s extensive experience in the paper industry, our Board considers that it was in the interest of our Group and the shareholders of our Company as a whole for him to be given the overall management responsibility of our Group

during his tenure of office as the general manager of Century Sunshine until his resignation from such role on 31 March 2012. Our Board considers that vesting the roles of chairman of our Board and functions of chief executive of our Company in the same person, namely, Mr. Wang Dongxing, was appropriate to our Company at the time and believes such arrangement did not result in any material adverse impact to the efficiency of operation and management of our Company during the period.

Mr. Ci Xiaolei has been appointed as the general manager of Century Sunshine to replace Mr. Wang Dongxing on 31 March 2012 and since then, our Company has complied with Code Provision A2.1 of the Old CG Code and the New CG Code.

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 the 1H 2012.

AUDIT COMMITTEE

Our Board 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 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 Mr. Xu Ye. 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 the 1H 2012 and discussed the financial matters with management of the Company. The unaudited condensed consolidated financial statements of our Group for the 1H 2012 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 2,800 employees as at 30 June 2012. The staff costs for 1H 2012 were RMB63.0 million (1H 2011: RMB53.0 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.

DIVIDEND

Our Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2012, 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
Wang Dongxing
Chairman

Hong Kong, 28 August 2012

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. Xu Fang and Mr. Wang Junfeng

Independent non-executive Directors: Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye

* *For identification purpose*