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 2011

FINANCIAL HIGHLIGHTS

1. Turnover increased by 61.3% to RMB1,757.4 million

2. Gross profit margin slightly decreased to 18.4%, compared to 19.9% for the corresponding period last year

3. Profit attributable to the owners of the Company decreased to RMB70.7 million, compared to RMB76.8 million for the corresponding period last year. The decrease mainly reflected the decrease in subsidy income and the increase in pre-operating expenses and ramp-up cost for a new production line.

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 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Six months ended 30 June 2011** *RMB'000* **(unaudited)**	Six months ended 30 June 2010 *RMB'000* (unaudited)
Revenue	*3*	**1,757,438**	1,089,507
Cost of sales		**(1,433,976)**	(872,311)
Gross profit		**323,462**	217,196
Other income		**24,353**	47,585
Other expense		**(3,468)**	(8,917)
Selling and distribution expenses		**(88,745)**	(63,407)
Administrative expenses		**(64,538)**	(49,548)
Change in fair value of derivative financial instruments		**163**	(7,564)
Finance costs		**(96,985)**	(46,924)
Profit before tax	*4*	**94,242**	88,421
Income tax expenses	*5*	**(18,252)**	(9,907)
Profit and total comprehensive income for the period		**75,990**	78,514
Profit and total comprehensive income attributable to:			
Owners of the Company		**70,737**	76,781
Minority Interests		**5,253**	1,733
		75,990	78,514
		RMB	*RMB* Restated
Earnings per share	*7*		
— Basic		**0.09**	0.10
— Diluted		**0.09**	0.10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2011** *RMB'000* **(unaudited)**	31 December 2010 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,328,692**	3,318,963
Prepaid lease payments		**169,750**	171,302
Goodwill		**18,692**	18,692
Deferred tax assets		**11,525**	7,598
		3,528,659	3,516,555
Current assets			
Prepaid lease payments		**3,693**	3,686
Inventories		**595,455**	545,481
Trade receivables	*8*	**435,794**	190,467
Bills receivable	*9*	**908,792**	1,236,783
Prepayments and other receivables		**427,392**	283,836
Restricted bank deposits		**731,666**	412,687
Bank balances and cash		**229,173**	225,677
		3,331,965	2,898,617
Current liabilities			
Trade payables	*10*	**834,611**	1,110,936
Bills payable	*10*	**51,000**	—
Other payables		**115,237**	92,672
Payable for construction work, machinery and equipment		**184,233**	307,044
Income tax payable		**10,808**	21,692
Obligations under finance leases — current portion		**43,301**	42,214
Deferred income — current portion		**2,096**	2,073
Derivative financial instruments		**2,054**	2,242
Discounted bill financing	*11*	**1,093,363**	688,735
Bank borrowings — due within one year		**1,789,477**	1,419,074
Other borrowings		**14,000**	14,000
		4,140,180	3,700,682
Net current liabilities		**(808,215)**	(802,065)
Total assets less current liabilities		**2,720,444**	2,714,490
Capital and reserves			
Share capital		**72,351**	72,351
Reserves		**1,356,038**	1,318,407
Equity attributable to owners of the Company		**1,428,389**	1,390,758
Minority interests		**59,240**	53,987
Total equity		**1,487,629**	1,444,745
Non-current liabilities			
Obligations under finance lease — non-current portion		**155,739**	177,389
Bank borrowings — due after one year		**1,035,181**	1,055,681
Deferred income — non-current portion		**26,840**	27,495
Deferred tax liabilities		**15,055**	9,180
		1,232,815	1,269,745
Total equity and non-current liabilities		**2,720,444**	2,714,490

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 since 12 December 2007.

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

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 of Hong Kong Limited and with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standard Board ("IASB").

The Group has net current liabilities of approximately RMB808,215,000 as at 30 June 2011. The directors are of the opinion that, taking into account the present available banking facilities of approximately RMB1,073,400,000 (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 the financial statements. Hence, the interim financial information has been prepared on a going concern basis.

2. Basis of preparation and 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised IFRSs") issued by the IASB.

Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009) *Related Party Disclosures*
Amendments to IAS 32 *Classification of Right Issues*
Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The application of the above new or revised IFRSs in 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.

The Group has not early applied new or revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012

Directors anticipate that the application of these new or revised standards will have no material impact on the results and the financial position of the Group.

3. Segment information

(a) Segment result

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

Six months ended 30 June 2011

	Paper products					
	White top linerboard	**Light-coated linerboard**	**Core board**	**Specialized paper products**	**Electricity and steam**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
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	**624,995**	**642,209**	**291,094**	**138,563**	**302,525**	**1,999,386**
Segment profit	**104,291**	**103,600**	**72,991**	**19,850**	**48,960**	**349,692**

Six months ended 30 June 2010

	Paper products						
	White top linerboard	Light-coated linerboard	Core board	Specialized paper products	Sales of raw materials	Electricity and steam	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	422,306	287,000	204,742	91,690	33,173	50,596	1,089,507
Inter-segment revenue	—	—	—	—	—	126,549	126,549
Segment revenue	422,306	287,000	204,742	91,690	33,173	177,145	1,216,056
Segment profit	94,969	74,930	22,394	9,824	9,642	8,423	220,182

(b) Reconciliations of reportable segment profit

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Profit		
Reportable segment profit	**349,692**	220,182
Unrealized profit on intragroup sales	**(44,094)**	(13,028)
	305,598	207,154
Selling and distribution expenses	**(88,745)**	(63,407)
Administrative expense	**(57,071)**	(43,735)
Other income	**23,490**	45,060
Other expense	**(3,468)**	(8,917)
Finance cost	**(85,725)**	(40,170)
Change in fair value of derivative financial instruments	**163**	(7,564)
Consolidated profit before taxation	**94,242**	88,421

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

4. Profit before tax

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

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Depreciation of property, plant and equipment	**80,808**	40,149
Release of prepaid lease payments	**1,545**	1,039
Loss on disposal of property, plant and equipment	**1,366**	1,597
Allowance for bad debts (reversed)	**258**	(580)
Interest income	**(7,089)**	(12,847)
Government grants (note)	**(2,111)**	(24,508)
Net exchange gain	**(8,513)**	(297)

Note: Pursuant to Cai Shui [2008] No. 157 issued by the Ministry of Finance and the State Administration of Taxation, Changdong Paper Recovery, a subsidiary of the Company, was qualified as an ordinary value-added tax payer that sells the renewable resources and was required to settle value-added taxes first before getting tax refund for each of the years ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% of the value-added tax payment on renewable resources sales in 2009 and 50% of the value-added tax payment on renewable resources sales in 2010 have been refunded. Changdong Paper Recovery was entitled to this tax refund in the aggregation amount of RMB22,077,000 during the six months ended 30 June 2010 and ceased to enjoy this benefit from 1 January 2011.

5. Income tax expenses

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**16,304**	10,967
Deferred tax charge (credit)	**1,948**	(1,060)
Charge for the period	**18,252**	9,907

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 is 25% from 1 January 2008 onwards.

In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the New Law and will have an impact on foreign investment enterprises ("FIE"). Enterprises which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of tax reductions and exemptions, such as the "two-year tax exemption followed by three-year 50% tax reduction", 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 takes effect until the initial term expires. 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 period was 12.5% (six months ended 30 June 2010: 12.5%).

In 2010, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) ("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 2011.

No provision for Hong Kong Profit Tax has been made for the period ended 30 June 2011 and 2010 as the Group did not have any assessable profit during both periods.

Under the New Law, deferred tax liability was recognised based on undistributed profit of the PRC subsidiaries for the dividends expect to be declared to the Hong Kong holding company in respect of profit earned from 1 January 2008 and thereafter which will be subject to withholding tax at 5% based on the New Double Taxation Arrangement between Hong Kong and Mainland China. The management intends to declare and recommend dividends which would be approximately 20% of the net profit of the PRC subsidiaries generated from 1 January 2008 onward and deferred tax liability has been provided on this basis.

6. Dividends

During the current period, a dividend of HK$0.05 per share (equivalent to approximately RMB0.042 per share) (2010: HK$0.024 per share), amounting to an aggregate amount of approximately RMB33,404,000 was declared and paid to shareholders as the final dividend for 2010 (2010: RMB8,397,000 in aggregate was declared and paid in respect of final dividend for 2009). The dividend was paid out from the Company's share premium. In the opinion of the Directors, 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 2011.

7. Earnings per share

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

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**70,737**	76,781

	Six months ended 30 June 2011 *'000*	Six months ended 30 June 2010 *'000* (Restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**802,588**	802,088
Effect of dilutive potential ordinary shares: Share options	**160**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**802,748**	802,088

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus issue on 23 November 2010.

The computation of diluted earnings per share for the period ended 30 June 2010 did not assume the exercise of share options as the exercise prices of share options were higher than the average market price during that period.

8. 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 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0–30 days	**351,475**	139,171
31–90 days	**76,035**	39,612
91–365 days	**8,022**	9,510
Over 1 year	**262**	2,174
	435,794	190,467

9. 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 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0–90 days	**585,603**	409,054
91–180 days	**323,189**	827,729
	908,792	1,236,783

During the period, the Group has discounted bills receivable of RMB60,363,000 (2010: RMB119,735,000) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as discounted bill financing (see Note 14).

Bills receivable of approximately RMB452,496,000 (31 December 2010: RMB859,822,000) was endorsed with recourse to creditors as at 30 June 2011 and the corresponding trade payables of RMB452,496,000 (31 December 2010: RMB859,826,000) were included in the condensed consolidated statement of financial position accordingly.

10. Trade and bills payable

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

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0–90 days	**544,667**	432,730
91–365 days	**275,017**	640,698
Over 1 year	**14,927**	37,508
	834,611	1,110,936

All the bills payable as at 30 June 2011 are trading nature and will mature within six months.

11. Discount bill financing

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Discounted bill financing	**1,093,363**	688,735
Comprising:		
Discounted bill receivable from third party	**60,363**	119,735
Discounted bill receivable from subsidiaries of the Company	**1,033,000**	569,000
Total	**1,093,363**	688,735

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

During the 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.

BUSINESS REVIEW

Operation

2011 is a milestone year for our Group. After a five-month trial run, the largest production line of our Group with a designed annual production capacity of 500,000 tons white top linerboard and light-coated linerboard (the "PL 5") has commenced its commercial production in late March 2011. Currently, our Group has a total annual designed production capacity of 1,100,000 tons for five different production lines, namely PL 1 to PL 5. All production lines have been operated in normal state.

Our Group first launched light-coated linerboard of 150g/m^2 to 200g/m^2 (the "Light-Coated") in 2007. Light-Coated was previously produced by PL 2. During first half of 2011, our Group launched an advanced light-coated linerboard of 125g/m^2 to 250g/m^2 (the "Advanced Light-Coated"), which is a key product of PL5. Comparing Light-Coated which has only a single coating layer, Advanced Light-Coated has two to three coating layers, and is able to provide better printing quality by offering higher brightness and gloss, but its weight is comparatively lower than that of the Light-Coated.

The market trend in packaging paper is moving towards mid-to-high end papers which have lighter coating layer and that are environmentally friendly with better printing quality. The Advanced Light-Coated is aimed at capturing the business opportunities presents from this market trend. After the commencement production of PL 5, our Group started to market Advanced Light-Coated and will gradually substitute the Light-Coated. The first half of 2011 is the beginning of the transitional period for our Group's customers shifting their demands from Light-Coated to Advanced Light-Coated.

For the six months ended 30 June 2011 ("1H 2011"), our Group's utilization rate for PL 1 to PL 4 was over 95% while the utilization rate for PL 5 was approximately 75%. Our Group is confident that the actual production capacity for full year 2011 will be significantly higher than that of full year 2010.

Five production lines of our Group as at 30 June 2011

Production line	**Location**	**Paper Product**	**Designed annual production capacity *(tons)***
PL 1	Weifang	White top linerboard	110,000
PL 2	Weifang	White top linerboard and Light-Coated (note 1)	220,000
PL 3	Weifang and Kunshan	Specialized paper products (note 2)	70,000
PL 4	Weifang	Core board (note 3)	200,000
PL 5	Weifang	White top linerboard and Advanced Light-Coated (note 4)	500,000
Total			1,100,000

Note 1: Production of white top linerboard and Light-Coated is interchangeable.

Note 2: Specialized paper products mainly comprise high performance corrugating medium, writing paper and packaging box.

Note 3: During 1H 2011, a sub-production line with 60,000 tons production capacity was closed down for the purpose of modifying it to specialize in printing business. Therefore, the designed annual production capacity for PL 3 decreased from 260,000 tons as at 31 December 2010 to 200,000 tons as at 30 June 2011.

Note 4: Production line commenced its commercial operation in late March 2011. Production of white top linerboard and advanced light-coated linerboard is interchangeable.

Same as other players in the paper manufacturing industry in China, our Group faced three major challenges in 1H 2011, namely tightening monetary policy in China, high inflation rate and cancellation of value-added tax refund. Tightening monetary policy exerted liquidity pressure on small-and medium-sized printing and packaging box manufacturers. These manufacturers adopted a more prudent and conservative procurement approach, which in turn adversely affected the demand of packaging papers. According to the National Bureau of Statistics of China, China's consumer price index recorded a year-on-year increase to 6.4% in June 2011. It reflected the soaring in raw material and labour costs during 1H 2011, which eroded our Group's profit margin. Lastly, our Group was not entitled to any subsidy income in 1H 2011 in relation to the value-added tax refund from purchase of domestic recovered paper after the cancellation of value-added tax refund policy since 2011. On the contrary, an approximately RMB22.1 million of subsidy income was recorded in the corresponding period in 2010.

As a result of the aforesaid challenges and the pre-operating expenses and ramp-up costs for PL5 before its commercial production, the profit attributable to the owners of the Company decreased from RMB76.8 million for 1H 2010 to RMB70.7 million for 1H 2011, representing a decrease of 7.9%.

Outlook

According to the statistics collated by the China Paper Association, our Group was one of the top twenty largest paper manufacturers in China in 2010 by production output. With the additional 500,000 tons production capacity this year, our Directors are confident that the ranking of our Group will further improve in 2011.

Our Group remains optimistic about our performance in the second half of 2011. Our Group has a scalable production capacity to negotiate extra discount for bulk purchase of raw materials. In addition, with our self-owned power and steam plant, our Group will create extra synergies by sharing energy resources and further enjoy economies of scale when all production lines are in full operation.

Continuous upward adjustment in selling price of the Advanced Light-Coated is another signal for the improvement in our Group's performance. In order to gain a larger market share of packing paper in China in a short period of time, our Group marketed our Advanced Light-Coated at a discount price in 1H 2011. Nevertheless, the average selling price of the Advanced Light-Coated has been steady increased subsequent to 1H 2011, which, our Directors believe, in turn will further enhance our gross profit margin in the second half of 2011.

In July this year, the Ministry of Industry and Information Technology of the PRC announced that the target of poor efficiency paper manufacturers to be compulsory close-down in 2011 amount to approximately 7.45 tons of paper, which was nearly 72.5% increase as compared to 4.32 million tons in 2010. This market consolidation presents a favorable outlook for our Group's development by capture a larger market share.

The market trend in packaging paper is moving towards mid-to-high end paper which have lighter coating layer and that are environmentally friendly with better printing quality. Compared to other packaging papers, our Advanced Light-Coated is the first among its equals in terms of quality to meet this market trend. As one of the leading packaging paper manufacturers in China, our Group has established a strong foundation to capture the vast business opportunities by riding on the continuous increase of domestic consumption in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Total Revenue

For 1H 2011, our Group's total revenue was RMB1,757.4 million, representing an increase of approximately 61.3% as compared to RMB1,089.5 million for the corresponding period in 2010 ("1H 2010").

Sales of paper products

Our Group's revenue on sales of paper products increased to RMB1,696.9 million for 1H 2011, representing an increase of approximately 68.7% as compared to RMB1,005.7 million for 1H 2010. The increase was mainly due to the commencement of the production of PL 5 in late March 2011.

Sales of white top linerboard increased by approximately 48.0%, from RMB422.3 million for 1H 2010 to RMB625.0 million for 1H 2011. Sales of core board also recorded an increase from RMB204.7 million for 1H 2010 to RMB291.1 million in 1H 2011. The increase in sales of white top linerboard and core board was primarily driven by increase in their average selling prices ("ASP") and sales volume.

Due to the shift of sales orders from our customers from Light-Coated to Advanced Light-Coated as discussed above, our Group recorded a decrease in sales of Light-Coated, from RMB287.0 million for 1H 2010 to RMB196.9 million for 1H 2011. On the contrary, our Group recorded sales of Advanced Light-Coated of RMB445.3 million for 1H 2011.

Even though there was a decrease in the production and sales volume of light-coated in 1H 2011, the ASP for 1H 2011 still recorded an increase by approximately 12.5% from RMB4,000 for 1H 2010 to RMB4,500 for 1H 2011.

Sales of specialized paper products also increased from RMB91.7 million for 1H 2010 to RMB138.6 million for 1H 2011. The increase was primarily due to an increase in sales of high performed corrugating medium, the largest composition of our specialized paper products.

Sales volume of all paper products of our Group reached approximately 430,000 tons for 1H 2011, representing an increase of approximately 48.3%, as compared to 290,000 tons for 1H 2010.

Sales of electricity and steam

Sales of electricity and steam were mainly made to a minority shareholder of a subsidiary of our Company. Sales of electricity and steam was RMB60.6 million and RMB50.6 million, respectively, for 1H 2011 and 1H 2010.

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

		1H 2011			1H 2010	
		Gross profit			Gross profit	
	RMB'000	**margin *(%)***	***%***	*RMB'000*	margin *(%)*	*%*
White top linerboard	**624,995**	**17.9**	**35.6**	422,306	21.6	38.8
Light-Coated	**196,923**	**25.0**	**11.2**	287,000	25.8	26.3
Advanced Light-Coated	**445,286**	**14.8**	**25.3**	—	—	—
Core board	**291,094**	**22.6**	**16.6**	204,742	13.0	18.8
Specialized paper products	**138,563**	**15.3**	**7.9**	91,690	11.0	8.4
Subtotal for sales of paper products	**1,696,861**	**18.5**	**96.6**	1,005,738	20.1	92.3
Sales of raw materials	**—**	**—**	**—**	33,173	29.0	3.1
Sales of electricity and steam	**60,577**	**16.0**	**3.4**	50,596	10.5	4.6
Total revenue of the Group	**1,757,438**	**18.4**	**100.0**	1,089,507	19.9	100.0

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

	1H 2011 ASP *(RMB per ton)*	1H 2010 ASP *(RMB per ton)*
White top	**4,100**	3,800
Light-Coated	**4,500**	4,000
Advanced Light-Coated	**4,080**	Not applicable
Core board	**3,300**	2,330

Cost of sales

Cost of sales mainly comprised of raw materials costs, labour costs and manufacturing overheads. It increased by approximately 64.4%, from RMB872.3 million for 1H 2010 to RMB1,433.9 million for 1H 2011, which was in line with the increase in sale and production volume.

Raw materials costs continued to be the largest component of our cost of sales and represented approximately 75.0% of cost of sales for 1H 2011. Approximately one third of our Group's recovered paper consumed was primarily sourced from the United States. The remaining two third of our Group's recovered paper consumed was purchased in China, of which approximately 40% was sourced from our Group's domestic recovered paper collection points.

Overhead costs mainly comprised of depreciation, energy cost, consumables, repairs and maintenance, and other overhead related expenses. As a percentage of cost of sales, overhead costs increased from approximately 22.6% for 1H 2010 to approximately 23.8% for 1H 2011. The increase was due to certain operating expenses, such as depreciation and regular repairs, which were fixed cost and they represented a larger portion of cost of sales while PL 5 was under ramp-up period prior to its commercial operation in March 2011.

Gross profit and gross profit margin

The gross profit of our Group increased from RMB217.2 million for 1H 2010 to RMB323.5 million for 1H 2011, which was mainly driven by the increase in sales of paper products. However, the overall gross profit margin of our Group slightly decreased from 19.9% for 1H 2010 to 18.4% for 1H 2011.

The gross profit margin of paper products was 18.5% for 1H 2011, as compared to 20.1% for 1H 2010. Gross profit margins of white top linerboard and Light-Coated were 17.9% and 25.0%, respectively, for 1H 2011, as compared to 21.6% and 25.8%, respectively for 1H 2010. The decrease in gross profit margins of these two paper products was mainly due to our Group could not fully pass the increased costs arising from the surges in prices in energy and raw material costs to our customers.

However, the gross profit margin of core board increased from 13.0% for 1H 2010 to 22.6% for 1H 2011. Thanks to the strong demand of core board from our customers engaged in the textile and chemical fiber industries in 1H 2011, our Group was able to adjust the ASP of core board at a premium over the increase in its production cost.

As a result of low price strategy for marketing Advanced Light-Coated and ramp-up cost in 1H 2011, the gross profit margin of Advanced Light-Coated was only 14.8%. In view of a steady increase in ASP of Advanced Light-Coated and a further enhancement of production efficiency by increasing the production volume of PL 5, we are optimistic that the gross profit margin of Advanced Light-Coated will be sharply improved in the second half of 2011.

Other profit and loss items

Other income decreased from RMB47.6 million for 1H 2010 to RMB24.4 million for 1H 2011. The decrease was mainly due to the cancellation of subsidy income in relation to the value-added tax refund for the purchase of domestic recovered paper since 2011. Our Group did not record any subsidy income in relation to the aforesaid value-added tax refund for 1H 2011, as compared to RMB22.1 million for 1H 2010.

Distribution and selling expenses primarily consisted of transportation costs and staff costs relating to sales and marketing. Distribution and selling expenses increased by approximately 39.9%, from RMB63.4 million for 1H 2010 to RMB88.7 million for 1H 2011, driven by the increase in sales of paper products. As a percentage of total revenue, the distribution and selling expenses fell from 5.8% for 1H 2010 to 5.0% for 1H 2011.

Administrative expenses were RMB64.5 million for 1H 2011, representing an approximately 30.3% increase as compared to RMB49.5 million for 1H 2010. The increase in administrative expenses was mainly due to the increase in staff costs in relation to the additional staff hired to support the operation of PL 5. However, as a percentage of total revenue, the administrative expenses fell from 4.5% for 1H 2010 to 3.7% for 1H 2011.

Finance costs was RMB97.0 million for 1H 2011, representing an increase of 106.8%, as compared to RMB46.9 million for 1H 2010. The increase was primarily due to (i) the increase in higher interest bearing bank borrowings, and (ii) the decrease in interest capitalization due to the completion of PL 5 in 1H 2011.

Income tax expenses

Income tax expenses increased by approximately 84.8%, from RMB9.9 million for 1H 2010 to RMB18.3 million for 1H 2011. Effective tax rate also increased from 11.2% for 1H 2010 to 19.4% for 1H 2011. The increase in both income tax expenses and effective tax rate was due to a principal operating subsidiary has fully utilized its incentive of income tax deduction in 1H 2010 and its applicable income tax rate is 15% with effect from 2011.

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 2011 was RMB76.0 million and RMB70.7 million, respectively, representing a decrease of approximately 3.2% and 7.9% as compared to RMB78.5 million and RMB76.8 million, respectively, for 1H 2010.

LIQUIDITY AND FINANCIAL RESOURCES

Cashflow

Our Group recorded a net cash outflow from operating activities of RMB48.9 million for 1H 2011 (1H 2010: net cash inflow from operating activities of RMB21.2 million.) The net cash outflow from operating activities for 1H 2011 mainly reflected the decrease in cash settlement from trade receivables as its balance increased from RMB190.5 million as at 31 December 2010 to RMB435.8 million as at 30 June 2011.

Our Group recorded a net increase in cash and cash equivalents of RMB3.5 million for 1H 2011 (1H 2010: net decrease in cash and cash equivalents of RMB122.5 million), representing a combined effect of the aforesaid net cash outflow from operating activities of RMB48.9 million, net cash used in investing activities of RMB517.5 million and net cash from financing activities of RMB569.9 million.

Inventories and trade receivables

Inventories and trade receivables increased by RMB50.0 million and RMB245.3 million, respectively, from RMB545.5 million and RMB190.5 million, respectively, as at 31 December 2010, to RMB595.5 million and RMB435.8 million, respectively, as at 30 June 2011. The increase in absolute amount of inventories and trade receivables was mainly due to the increase in operating size of our Group after the commencement of the production of PL5. Notwithstanding the increase in the absolute amount of inventories and trade receivables, the inventory turnover and trade receivable turnover for 1H 2011 were 75.8 days and 45.3 days, respectively, which were still healthy.

Bank deposits, cash and bank balances, and bank borrowings

As at 30 June 2011, our Group had restricted bank deposits of RMB731.7 million (RMB412.7 million as at 31 December 2010) and cash and bank balances of RMB229.2 million (RMB225.7 million as at 31 December 2010). Bank and other borrowings of our Group as at 30 June 2011 was RMB2,838.7 million (RMB2,488.8 million as at 31 December 2010), of which RMB1,803.5 million was repayable within one year while the remaining of RMB1,035.2 million was repayable after one year.

Financial ratios

Current ratio and quick ratio of our Group were 0.8 times and 0.66 times, respectively, as at 30 June 2011, as compared to 0.78 times and 0.64 times, respectively, as at 31 December 2010.

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) slightly decreased from 143.3% as at 31 December 2010 to 139.6% as at 30 June 2011. Since our Group has only small scale expansion project in pipeline in coming twelve months, we are optimistic that the net gearing ratio of our Group will be further decreased by utilizing operating cash inflow to repay bank borrowings. Our Group strives to improve net gearing ratio and to maintain a healthy balance sheet.

Financial resources

The PRC government has put forth a series of measures in tightening the monetary policy to prevent economic overheat since mid 2010. After the completion of PL 5, our Group adopts a more conservative approach in expansion to react to the tighten monetary environment in China and the debt crisis in Europe and US.

As at 30 June 2011, the unutilized banking facilities available to our Group was approximately RMB1,073.4 million. (RMB1,154.7 million as at 31 December 2010)

Capital expenditure

During 1H 2011, our Group spent approximately RMB98.3 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 RMB184.5 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 30 June 2011.

Our Group had no material contingent liabilities as at 30 June 2011.

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 2011, our 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, our Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman of our board and the executive Director and also the general manager of Shandong Century Sunshine Paper Group Co., Ltd, the principal operating subsidiary of our Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, our Board considers that it is in the interest of our Group and the shareholders as a whole for him to be given the overall management responsibility of our Group. Our Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to our Company at this stage and believes such arrangement will not result in any material adverse impact to the efficiency of operation and management of our Company.

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 2011.

AUDIT COMMITTEE

Our 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 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 2011 and discussed the financial matters with management of the Company. The unaudited condensed consolidated financial statements of our Group for the 1H 2011 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 3,200 employees as at 30 June 2011. The staff costs for 1H 2011 were RMB53.0 million (1H 2010: RMB33.6 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 2011.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2011, 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, 30 August 2011

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

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong*
Non-executive Directors:	*Mr. Xu Fang and Mr. Wang Junfeng*
Independent non-executive Directors:	*Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye*

* *For identification purpose*