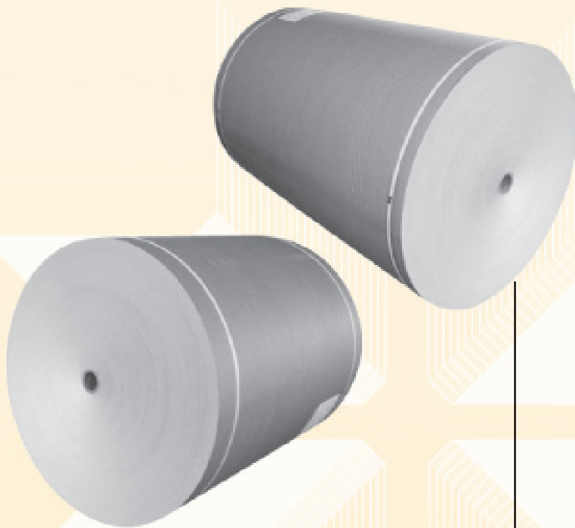
2011
Interim Report

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

*For identification purposes only



Main Products

White top linerboard

is used to provide the outer facing surface of the corrugating medium, and this combination of linerboard and fluted inner sheet of corrugating medium gives the board its rigid structure and stacking strength. White top linerboard is typically used as the packaging material for boxes which require high quality printability and stacking strength.

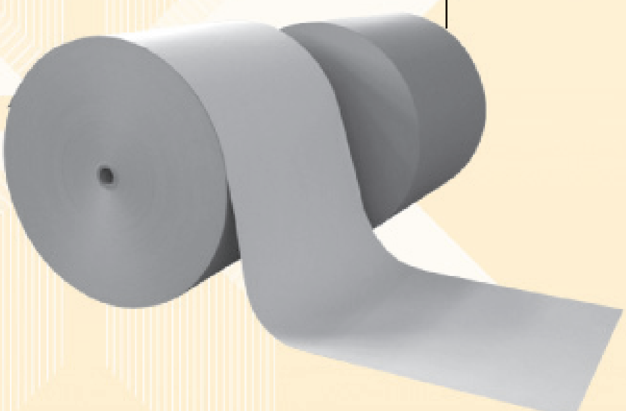
Table of Content

China Sunshine Paper Holdings Company Limited
2011 Interim Report

Main Products

Light coated linerboard

is a form of white top linerboard comprising a multiple-ply sheet composed of a bleached upper ply layer coated by a coating medium. Such coating allows superior printability by offering better brightness and gloss, and at the same time, delivers excellent ink transfer quality. The coating layer of the light coated linerboard is much thinner than that of the traditional coated duplex board products, and thus light coated linerboard is considered more environmentally friendly.



Core board

is the main material used to produce "cores" which are tubes generally used as the base around which various products, such as paper and yarn, are wound. It is predominantly used to produce durable spindles with the ability to withstand high spinning speeds, and to produce strong paper cores and related products.

Corporate Information

Board of Directors

Executive Directors

Mr. Wang Dongxing
(Chairman and General Manager)
Mr. Shi Weixin *(Vice Chairman)*
Mr. Zhang Zengguo *(Deputy General Manager)*
Mr. Wang Yilong

Non-Executive Directors

Mr. Wang Junfeng
Mr. Xu Fang

Independent Non-Executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Mr. Xu Ye

Audit Committee

Mr. Leung Ping Shing *(Chairman)*
Mr. Wang Zefeng
Mr. Xu Ye

Remuneration Committee

Mr. Wang Zefeng *(Chairman)*
Mr. Wang Dongxing
Mr. Leung Ping Shing

Company Secretary

Mr. Ng Cheuk Him *CPA*

Authorised Representatives

Mr. Wang Dongxing
Mr. Ng Cheuk Him *CPA*

Principal Place of Business in China

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal Place of Business in Hong Kong

Suite 1627, 16/F
Ocean Centre
Harbour City
5 Canton Road
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Cayman Islands Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Corporate Information

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Legal advisers as to Hong Kong Law

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Stock Code

2002

Website

www.sunshinepaper.com.cn

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 PL 5. 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.

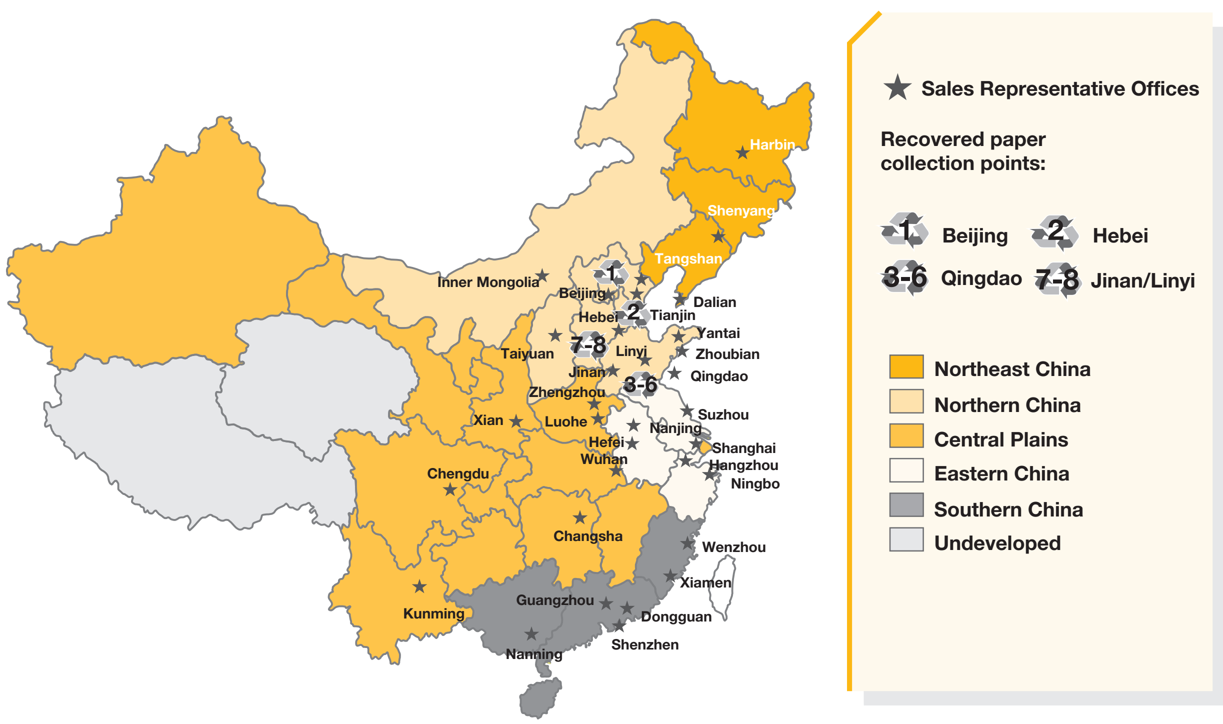
Note 4: Production line commenced its commercial operation in late March 2011. Production of white top linerboard and advanced light-coated linerboard is interchangeable.

Business Review

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%.

The following map* shows the geographical location of our Group's recovered paper collection points and sales representative offices as at the date of this report:



* for illustraction only

Business Review

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 million 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.

Management Discussion and Analysis

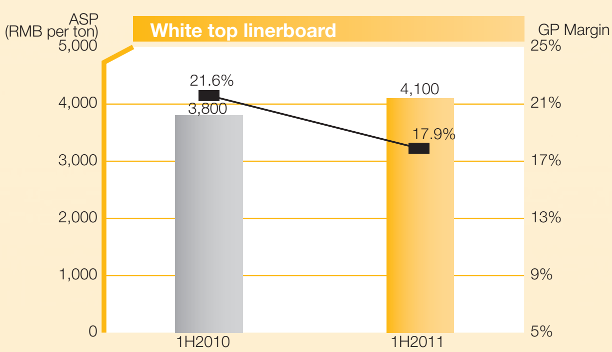
Sales of electricity and steam

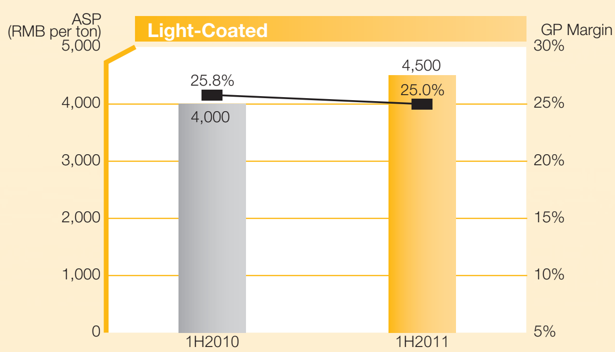
Sales of electricity and steam were mainly made to a minority shareholder of a subsidiary of our Company. Sales of electricity and steam was RMB60.6 million and RMB50.6 million, respectively, for 1H 2011 and 1H 2010.

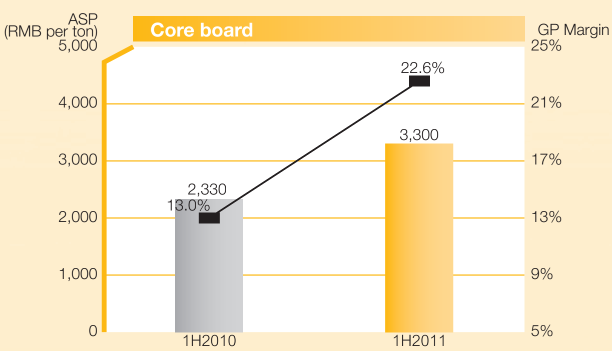
The following table sets out the sales and gross profit margin by different business segments:

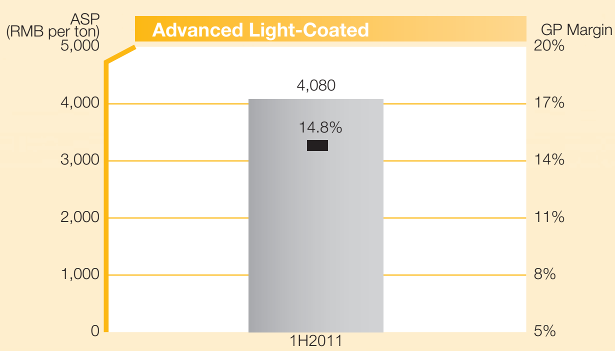
	1H 2011			1H 2010		
	RMB'000	**Gross profit margin (%)**	**%**	RMB'000	Gross profit margin (%)	%
White top linerboard	**624,995**	**17.9**	**35.6**	422,306	21.6	38.8
Light-Coated	**196,923**	**25.0**	**11.2**	287,000	25.8	26.3
Advanced Light-Coated	**445,286**	**14.8**	**25.3**	—	—	—
Core board	**291,094**	**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:









Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 and Other Information

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 auditors, 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.

Corporate Governance and Other Information

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.

Directors' interests in securities

As at 30 June 2011, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

Name of Director	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company[1]	325,387,052	40.54%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company[1]	325,387,052	40.54%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company[1]	325,387,052	40.54%
Mr. Wang Yilong	Interest of a party to an agreement to acquire interest in our Company[1]	325,387,052	40.54%

Notes:

1. A group of 20 individuals comprising Mr. Chen Xiaojun, Mr. Guo Jianlin, Mr. Hu Gang, Ms. Li Hua, Mr. Li Zhongzhu, Mr. Lu Yujie, Mr. Ma Aiping, Mr. Sang Yonghua, Mr. Sang Ziqian, Mr. Shi Weixin, Mr. Sun Qingtao, Mr. Wang Changhai, Mr. Wang Dongxing, Mr. Wang Feng, Mr. Wang Yilong, Mr. Wang Yongqing, Ms. Wu Rong, Mr. Zhang Zengguo, Mr. Zheng Fasheng and Mr. Zuo Xiwei (the "Controlling Shareholders Group") entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007 (the "Concert Parties Agreement"), pursuant to which each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the China Sunshine Paper Investments Limited ("China Sunshine"), China Sunrise Paper Holdings Limited ("China Sunrise") and any members of our Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong, is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

Corporate Governance and Other Information

Substantial shareholders' interests and short positions in the shares and underlying shares of our Company

So far as we, the Directors, are aware, as at 30 June 2011, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of our Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name	Long position/short position	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	325,387,052	40.54%
China Sunshine[1]	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholder Group[2]	Long	Interest of a party to an agreement to acquire interest in our Company	325,387,052	40.54%
Good Rise Holdings Limited	Long	Beneficial interest	73,547,674	9.16%
LC Fund III, LP[3]	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited[4]	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited[5]	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited[6] （聯想控股有限公司）	Long	Interest of a controlled corporation	73,547,674	9.16%
Wang Nengguang[7]	Long	Interest of a controlled corporation	73,547,674	9.16%
Beijing Lian Chi Zhi Yuan Management Consulting Center[8]（北京聯持志遠管理諮詢中心）	Long	Interest of a controlled corporation	73,547,674	9.16%
Beijing Lian Chi Zhi Tung Management Consulting Ltd.[9]（北京聯持志同遠管理諮詢有限公司）	Long	Interest of a controlled corporation	73,547,674	9.16%
Seabright SOF (I) Paper Limited	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited[10]	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited[11]	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited[12]	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC[12]	Long	Interest of a controlled corporation	71,341,244	8.89%

Notes:

1. As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

2. Pursuant to the Concert Parties Agreement, each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the Target Entities and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunshine owns the entire interest of China Sunrise, and the Controlling Shareholders Group owns the entire interest of China Sunshine, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code) is deemed to be interested in the 325,387,052 Shares held by China Sunrise.

3. As LC Fund III, LP owns the entire interest of Good Rise Holdings Limited, LC Fund III, LP is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

4. As LC Fund III GP Limited is the general partner of LC Fund III, LP, LC Fund III GP Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

5. As Right Lane Limited controls more than one third of the voting rights of LC Fund III GP Limited, Right Lane Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

6. As Legend Holdings Limited owns the entire interest of Right Lane Limited, Legend Holdings Limited is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

7. As Mr. Wang Nengguang controls Good Rise Holdings Limited, Mr. Wang Nengguang is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

8. Beijing Lian Chi Zhi Yuan Management Consulting Center owns and controls more than one third of the voting rights of Legend Holdings Limited. Accordingly, Beijing Lian Chi Zhi Yuan Management Consulting Center is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

9. Beijing Lian Chi Zhi Tung Management Consulting Ltd. is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center. Accordingly, Beijing Lian Chi Zhi Tung Management Consulting Ltd. is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

10. As Seabright China Special Opportunities (I) Limited owns the entire interest in Seabright SOF (I) Paper Limited, Seabright China Special Opportunities (I) Limited is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.

11. As Seabright Asset Management Limited controls more than one third of the voting rights of Seabright China Special Opportunities (I) Limited, Seabright Asset Management Limited is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.

12. Each of China Everbright Limited and Seagate Global Advisors, LLC controls more than one third of the voting rights of Seabright Asset Management Limited. Accordingly, each of China Everbright Limited and Seagate Global Advisors, LLC is deemed to be interested in the 71,341,244 Shares held by Seabright SOF (I) Paper Limited.

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of our Company as at 30 June 2011.

Corporate Governance and Other Information

Share options granted to other eligible participants

Movement of the share options granted to the eligible persons under the Share Option Scheme

		Number of share options				
Date of Grant (note 1 and 2)	**Eligible persons**	**As at 1 January 2011**	**Granted during the year**	**Exercised during the year**	**As at 30 June 2011**	**Exercise period**
8 April 2010	An employee	300,000	—	—	300,000	(i)
8 April 2010	An employee	800,000	—	—	800,000	(ii)
8 April 2010	An employee	800,000	—	—	800,000	(iii)
8 April 2010	An employee	800,000	—	—	800,000	(iv)

(i) From 1 July 2010 to 31 December 2011

(ii) From 1 July 2011 to 31 December 2012

(iii) From 1 July 2012 to 31 December 2013

(iv) From 1 July 2013 to 31 December 2014

Note 1. The fair value of the share options are determined by the Block-Scholes Model. The key assumptions of the Block-Scholes Model are:

Grant date share price	HK$3.00
Exercise price	HK$3.01
Expected life	0.75 years to 3.75 years
Expected volatility	59.456%, 69.93% and 67.87%
Dividend yield	0.88%
Risk-free interest rate	0.722% to 1.997%

The assumptions used in computing the fair value of the share options are based on our Directors' best estimates.

Note 2. After the completion of the Bonus Issue, the exercise price and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the share option granted on 8 April 2010 have been adjusted in accordance with the rules as set out in the Share Option Scheme, the requirement of Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 as follows:

Date of grant	**Original exercise price per Share to be issued before the completion of Bonus Issue** HK$	**Original number of Shares to be issued before completion of the Bonus Issue**	**Adjusted exercise price per Share to be issued upon the completion of the Bonus Issue** HK$	**Adjusted number of Shares to be issued upon the completion of the Bonus Issue**
8 April 2010	3.01	1,600,000	1.505	3,200,000

Report on Review of Interim Financial Information

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 22 to 40, which comprises the condensed consolidated statement of financial position of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'000 (unaudited)	Six months ended 30 June 2010 RMB'000 (unaudited)
Revenue	4	**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	5	**94,242**	88,421
Income tax expenses	6	**(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
Non-controlling Interests		**5,253**	1,733
		75,990	78,514
		RMB	RMB restated
Earnings per share	8		
— Basic		**0.09**	0.10
— Diluted		**0.09**	0.10

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**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	10	**435,794**	190,467
Bills receivable	11	**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	12	**834,611**	1,110,936
Bills payable	12	**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	13	**2,054**	2,242
Discounted bill financing	14	**1,093,363**	688,735
Bank borrowings — due within one year	15	**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

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Capital and reserves			
Share capital	16	**72,351**	72,351
Reserves		**1,356,038**	1,318,407
Equity attributable to owners of the Company		**1,428,389**	1,390,758
Non-controlling interests		**59,240**	53,987
Total equity		**1,487,629**	1,444,745
Non-current liabilities			
Obligations under finance leases — non-current portion		**155,739**	177,389
Bank borrowings — due after one year	15	**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

The interim financial report on pages 22 to 40 were approved by the board of directors on 30 August 2011 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Shi Weixin
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010 (audited)	37,872	610	779,617	(2,776)	83,754	–	4,196	33,935	5,429	285,524	1,228,161	41,876	1,270,037
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	–	–	76,781	76,781	1,733	78,514
Capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	10,000	10,000
Acquisition of additional interest in a subsidiary	–	–	–	–	(15)	–	–	–	–	–	(15)	(485)	(500)
Recognition of equity-settled share-based payment	–	–	–	–	–	405	–	–	–	–	405	–	405
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(20)	(20)
Dividend paid to owners of the Company	–	–	–	–	–	–	–	–	–	(8,397)	(8,397)	–	(8,397)
At 30 June 2010 (unaudited)	37,872	610	779,617	(2,776)	83,739	405	4,196	33,935	5,429	353,908	1,296,935	53,104	1,350,039
At 1 January 2011 (audited)	**72,351**	**610**	**745,940**	**(2,776)**	**83,777**	**555**	**4,196**	**53,013**	**5,429**	**427,663**	**1,390,758**	**53,987**	**1,444,745**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**70,737**	**70,737**	**5,253**	**75,990**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**298**	**–**	**–**	**–**	**–**	**298**	**–**	**298**
Dividend paid to owners of the Company	**–**	**–**	**(33,404)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33,404)**	**–**	**(33,404)**
At 30 June 2011 (unaudited)	**72,351**	**610**	**712,536**	**(2,776)**	**83,777**	**853**	**4,196**	**53,013**	**5,429**	**498,400**	**1,428,389**	**59,240**	**1,487,629**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June 2011 RMB'000 (unaudited)	Six months ended 30 June 2010 RMB'000 (unaudited)
Net cash (used in) from operating activities	**(48,865)**	21,218
Investing activities		
Purchase of property, plant and equipment	**(207,227)**	(736,863)
Prepaid lease payments of land use rights	**—**	(16,824)
Proceeds on disposal of property, plant and equipment	**1,188**	1,735
Interest received	**7,089**	12,847
Increase in restricted bank deposits	**(318,979)**	(50,686)
Government grants received	**400**	1,161
Net cash used in investing activities	**(517,529)**	(788,630)
Financing activities		
New borrowings raised	**1,026,405**	1,313,103
Borrowings repaid	**(676,606)**	(657,160)
Increase in discounted bill financing	**404,628**	51,736
Interest paid	**(130,570)**	(63,878)
Repayment of installments under finance lease	**(20,563)**	—
Dividends paid to owners of the Company	**(33,404)**	(8,397)
Acquisition additional interest in a subsidiary	**—**	(500)
Capital contribution by non-controlling shareholders of subsidiaries	**—**	10,000
Net cash from financing activities	**569,890**	644,904
Net increase (decrease) in cash and cash equivalents	**3,496**	(122,508)
Cash and cash equivalents at beginning of the period	**225,677**	357,505
Cash and cash equivalents at end of the period	**229,173**	234,997

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 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 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 Standards 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.

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.

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 IFRS") 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*

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 that have been issued but are not yet effective. The following new or revised standards 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 (as revised in 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

The directors of the Company 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.

4. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Company's senior executive management, in order to allocate resources to segments and to assess their performance.

4. SEGMENT INFORMATION (continued)

(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 RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	**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 RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Sales of raw materials RMB'000	Electricity and steam RMB'000	Total 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

4. SEGMENT INFORMATION (continued)

(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.

5. 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.

6. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

6. INCOME TAX EXPENSES (continued)

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%).

Pursuant to the approval of the Shandong State Tax Bureau, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) ("Century 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. Century Sunshine commenced its first profit-making year in 2006 and accordingly, ceased to enjoy this tax benefit from 1 January 2011.

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 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.

7. 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 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 2011.

8. EARNINGS PER SHARE

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

	Six months ended 30 June 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

8. EARNINGS PER SHARE (continued)

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.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB71,255,000 (2010: RMB33,307,000) on the acquisition of property, plant and equipment and approximately RMB27,086,000 (2010: RMB885,685,000) on construction in progress in order to increase its manufacturing capabilities in which including interest capitalisation of approximately RMB13,925,000 (2010: RMB17,315,000).

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB2,554,000 (2010: RMB3,332,000) for proceeds of RMB1,188,000 (2010: RMB1,735,000), resulting in a loss on disposal of RMB1,366,000 (2010: RMB1,597,000).

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 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

11. BILLS RECEIVABLES

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.

12. TRADE AND BILLS PAYABLES

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

13. DERIVATIVE FINANCIAL INSTRUMENTS

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Derivative financial instruments is analysed as:		
Liabilities		
Foreign currency forward contracts (note i)	**339**	458
Interest rate swaps (note ii)	**1,715**	1,784
	2,054	2,242

Notes:

(i) The Group entered into arrangements with various commercial banks in the PRC that the Group borrowed one year US dollar loans from these banks for settlement of its US dollar payable to suppliers denominated in US dollar. At the same time, the Group (a) placed one year Renminbi fixed deposits (amounted to the Renminbi equivalent of the respective amounts of US dollar loans plus interests thereon) to the banks as security against the US dollar loans, and (b) entered into non-delivery forward contracts with the banks to notional purchase US dollars (amounted to the US dollar loans plus interests thereon) by notionally selling Renminbi at predetermined forward rates (the "Arrangements").

At 30 June 2011, the US dollar loans of RMB21,967,000 (31 December 2010: RMB20,463,000) and fixed deposits denominated in Renminbi of RMB24,160,000 (31 December 2010: RMB22,890,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the period ended 30 June 2011, interest income on the fixed deposits of RMB281,000 (six months ended 30 June 2010: RMB1,279,000), exchange gain on US dollar loans of RMB481,000 (six months ended 30 June 2010: exchange gain of RMB652,000) are included in profit or loss, while the interest expenses on US dollar loans of RMB326,000 (six months ended 30 June 2010: RMB878,000) are included in finance cost.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(i) (continued)

Major terms of foreign currency forward contracts as at the end of the reporting period are as follows:

Aggregate principal amount	Maturity	Forward exchange rate
At 30 June 2011		
US$3,396,068.27	From July 2011 to April 2012	Buy US$/sell RMB at 6.4795 to 6.6938
At 31 December 2010		
US$3,089,858.42	From July 2011 to November 2011	Buy US$/sell RMB at 6.5521 to 6.7377

At 30 June 2011, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB339,000 (31 December 2010: RMB458,000). The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were provided by the counterparty financial institutions at the end of the reporting period. The gain on change in fair value of the foreign currency forward contracts amounting to RMB94,000 (six months ended 30 June 2010: gain on change in fair value of RMB783,000) has been recognised in the profit or loss for the period.

The US dollar loans are of fixed interest rates ranging from 3.06% to 4.18% per annum as at 30 June 2011 (31 December 2010: from 3.06% to 3.48%).

(ii) The Group entered into certain interest rate swap contracts during the year ended 31 December 2009 which are not accounted for using hedge accounting. Major terms of the outstanding contract as at the end of the reporting period are as follows:

At 30 June 2011 and 31 December 2010

Notional amount	Maturity	Swaps
US$13,500,000	15 June 2014	From LIBOR to fixed rate of 2.5%

The contract is measured at fair value at 30 June 2011. Its fair value is determined based on the valuation provided by the relevant financial institution at the end of the reporting period. The fair value of interest rate swap contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract at the end of the reporting period. The gain on change in fair value of the interest rate swap contracts amounting to RMB69,000 (six months ended 30 June 2010: loss of RMB8,347,000) has been recognised in the profit or loss for the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

14. DISCOUNTED 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.

15. BORROWINGS

During the period, the Group obtained new bank loans amounting to RMB1,026,405,000 (2010: RMB1,313,103,000), and repaid RMB676,606,000 (2010: RMB657,160,000). The newly raised loans bear interest at market rates from 2.00% to 10.00% per annum (2010: 0.91% to 7.96% per annum).

16. SHARE CAPITAL

		Share capital	
	Number of shares	HK$'000	Shown in the condensed consolidated financial statements RMB'000
Issued and fully paid			
Ordinary shares of HK$0.1 each			
At 31 December 2010 and 30 June 2011	**802,588,000**	80,258	72,351

17. SHARE-BASED PAYMENTS

The detailed information of share options adopted by the Company was the same as those followed in the Group's financial statements for the year ended 31 December 2010.

During the period, there is no exercise of existing outstanding share options and no new share options are granted by the Company. As at 30 June 2011, the outstanding number of share options is 2,700,000 (31 December 2010: 2,700,000).

The Group recognised an expense of RMB298,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB405,000) in relation to share options granted by the Company.

18. CAPITAL COMMITMENTS

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**184,535**	369,662

19. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following significant transactions with a related party during the period:

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Sales of goods to a non-controlling shareholder of a subsidiary	**56,012**	45,559

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

19. RELATED PARTY TRANSACTIONS (continued)

(b) Balance with a related party

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade receivable from a non-controlling shareholder of a subsidiary	**6,689**	6,236

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Short term employee benefit	**2,909**	1,253
Retirement benefit scheme contributions	**15**	15
Equity-settled share-based payments	**298**	405
	3,222	1,673