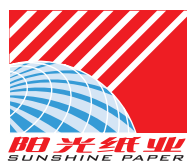


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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | Change |
|--------------------------------------------------------------------|---------------------------------|----------------|-----------------------------|
| | 2016 | 2015 | |
| | RMB'000 | RMB'000 | |
| Revenue | 1,971,418 | 1,887,118 | +4.5% |
| Gross profit margin | 21.4% | 20.8% | +0.6 percentage point |
| Profit for the period attributable to the owners of the Company | 61,854 | 27,068 | +128.5% |
| Basic and diluted earnings per share (<i>RMB</i>) | 0.08 | 0.03 | |

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of China Sunshine Paper Holdings Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period of last year. These interim results have been reviewed by the Company’s auditors, Grant Thornton Hong Kong Limited, and the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|-------------------------------------------------------------------------------------------|-------|--------------------------|--------------------|
| | | 2016 | 2015 |
| | Notes | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | 4 | 1,971,418 | 1,887,118 |
| Cost of sales | | <u>(1,549,402)</u> | <u>(1,495,116)</u> |
| Gross profit | | 422,016 | 392,002 |
| Other income | 5 | 46,764 | 40,014 |
| Other gains or losses | 6 | (2,772) | (12,709) |
| Distribution and selling expenses | | (136,826) | (136,924) |
| Administrative expenses | | (85,184) | (78,170) |
| Finance costs | 7 | (144,562) | (157,118) |
| Share of loss of a joint venture | | <u>(10,237)</u> | <u>(11,842)</u> |
| Profit before tax | 9 | 89,199 | 35,253 |
| Income tax expenses | 8 | <u>(24,454)</u> | <u>(6,420)</u> |
| Profit and total comprehensive income for the period | | <u>64,745</u> | <u>28,833</u> |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | | 61,854 | 27,068 |
| Non-controlling interests | | <u>2,891</u> | <u>1,765</u> |
| | | <u>64,745</u> | <u>28,833</u> |
| Earnings per share for profit attributable to the owners of the Company during the period | | | |
| Basic and diluted (RMB) | 11 | <u>0.08</u> | <u>0.03</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 June 2016 | As at 31 December 2015 |
|------------------------------------|--------------|--------------------------------------|------------------------------------|
| | <i>Notes</i> | RMB'000 (Unaudited) | RMB'000 (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | | 3,280,626 | 3,338,282 |
| Investment properties | | 183,181 | 185,522 |
| Prepaid lease payments | | 287,761 | 282,914 |
| Goodwill | | 18,692 | 18,692 |
| Deferred tax assets | | 5,922 | 6,108 |
| Interest in a joint venture | | 73,143 | 83,380 |
| Deposits and other receivables | | 247,183 | 249,945 |
| | | 4,096,508 | 4,164,843 |
| Current assets | | | |
| Inventories | | 273,791 | 375,055 |
| Trade receivables | 12 | 434,593 | 416,091 |
| Prepaid lease payments | | 5,327 | 4,922 |
| Bills receivable | 13 | 286,915 | 347,549 |
| Prepayments and other receivables | | 274,243 | 293,707 |
| Restricted bank deposits | | 1,636,168 | 1,506,512 |
| Bank balances and cash | | 429,658 | 326,865 |
| | | 3,340,695 | 3,270,701 |
| Assets classified as held for sale | | — | 59,944 |
| | | 3,340,695 | 3,330,645 |

| | | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | 31 December 2015 <i>RMB'000</i> (Audited) |
|-------------------------------------------------------------------------|--------------|-----------------------------------------------------------|----------------------------------------------------|
| | <i>Notes</i> | | |
| Current liabilities | | | |
| Trade payables | 14 | 733,522 | 778,830 |
| Bills payable | 14 | 251,000 | 174,000 |
| Other payables | | 158,215 | 135,878 |
| Payable for construction work, machinery and equipment | | 17,975 | 8,703 |
| Income tax payable | | 1,219 | 2,134 |
| Obligations under finance leases | 15 | 59,184 | 69,828 |
| Deferred income | | 1,701 | 1,655 |
| Discounted bill financing | 16 | 2,004,529 | 2,010,129 |
| Bank borrowings | 17 | 1,736,395 | 1,870,430 |
| Other borrowings | | 11,000 | 12,500 |
| | | <u>4,974,740</u> | <u>5,064,087</u> |
| Liabilities directly associated with assets classified as held for sale | | — | 6,796 |
| | | <u>4,974,740</u> | <u>5,070,883</u> |
| Net current liabilities | | <u>(1,634,045)</u> | <u>(1,740,238)</u> |
| Total assets less current liabilities | | <u>2,462,463</u> | <u>2,424,605</u> |
| Capital and reserves | | | |
| Share capital | | 72,351 | 72,351 |
| Reserves | | 1,482,447 | 1,441,172 |
| Equity attributable to owners of the Company | | 1,554,798 | 1,513,523 |
| Non-controlling interests | | 107,969 | 105,097 |
| Total equity | | <u>1,662,767</u> | <u>1,618,620</u> |
| Non-current liabilities | | | |
| Obligations under finance leases | 15 | 68,116 | 72,740 |
| Bank borrowings | 17 | 199,900 | 199,900 |
| Corporate bond | 18 | 495,714 | 495,179 |
| Deferred income | | 22,500 | 23,828 |
| Deferred tax liabilities | | 13,466 | 14,338 |
| | | <u>799,696</u> | <u>805,985</u> |
| Total equity and non-current liabilities | | <u>2,462,463</u> | <u>2,424,605</u> |

NOTES

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (the “Company”) is a limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 12 December 2007.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are production and sale of paper products.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The Group has net current liabilities of approximately RMB1,634,045,000 as at 30 June 2016. The directors of the Company (the “Directors”) have evaluated the relevant available information and key assumptions used in the cash flow projections for the twelve months since the reporting date. In addition, although most of the existing bank facilities will expire within twelve months, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional bank borrowing facilities as necessary. Therefore, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

These condensed consolidated financial statements are unaudited, but has been reviewed by Grant Thornton Hong Kong Limited in accordance with International Standards on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, which are measured at fair values, as appropriate.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

The Group has applied the following amendments to International Financial Reporting Standards (“IFRSs”) that have become effective for accounting period beginning on 1 January 2016 and are relevant to the Group as set out below:

| | |
|---------------------------------|----------------------------------------------------------------------|
| Amendments to IFRSs | Annual improvements to IFRSs 2012–2014 cycle |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |

The adoption of these amendments has no material impact on the results and financial position for the current and prior periods.

The Group has not early adopted any new and amended IFRSs that have been published but not yet effective for the current accounting period.

4. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the Company's senior executive management, being the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

(a) Segment result

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

Six months ended 30 June 2016

| | Paper products | | | | | Total RMB'000 |
|---------------------------------|------------------------------------|-------------------------------------------|-----------------------|---------------------------------------------|-------------------------------------|------------------|
| | White top linerboard RMB'000 | Light- coated linerboard RMB'000 | Core board RMB'000 | Specialised paper products RMB'000 | Electricity and steam RMB'000 | |
| Revenue from external customers | 568,921 | 815,797 | 230,246 | 262,709 | 93,745 | 1,971,418 |
| Inter-segment revenue | — | — | — | — | 127,496 | 127,496 |
| Segment revenue | <u>568,921</u> | <u>815,797</u> | <u>230,246</u> | <u>262,709</u> | <u>221,241</u> | <u>2,098,914</u> |
| Segment profit | <u>105,610</u> | <u>210,070</u> | <u>47,630</u> | <u>40,277</u> | <u>21,146</u> | <u>424,733</u> |

Six months ended 30 June 2015

| | Paper products | | | | | Total RMB'000 |
|---------------------------------|------------------------------------|-------------------------------------------|--------------------------|---------------------------------------------|-------------------------------------|------------------|
| | White top linerboard RMB'000 | Light- coated linerboard RMB'000 | Core board RMB'000 | Specialised paper products RMB'000 | Electricity and steam RMB'000 | |
| Revenue from external customers | 547,663 | 836,717 | 237,441 | 157,856 | 107,441 | 1,887,118 |
| Inter-segment revenue | — | — | — | — | 129,824 | 129,824 |
| Segment revenue | <u>547,663</u> | <u>836,717</u> | <u>237,441</u> | <u>157,856</u> | <u>237,265</u> | <u>2,016,942</u> |
| Segment profit | <u>98,976</u> | <u>175,347</u> | <u>53,576</u> | <u>43,424</u> | <u>15,638</u> | <u>386,961</u> |

(b) Reconciliation of segment profit

| | Six months ended 30 June | |
|----------------------------------------|--------------------------|-----------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit | | |
| Segment profit | 424,733 | 386,961 |
| Unrealised profit on intra-group sales | (23,816) | (20,027) |
| | <u>400,917</u> | <u>366,934</u> |
| Other income | 44,936 | 36,284 |
| Other gains or losses | (3,224) | (14,510) |
| Distribution and selling expenses | (136,826) | (136,924) |
| Administrative expenses | (74,792) | (69,904) |
| Finance costs | (131,575) | (134,785) |
| Share of loss of a joint venture | (10,237) | (11,842) |
| | <u>(89,199)</u> | <u>(35,253)</u> |
| Consolidated profit before tax | <u>89,199</u> | <u>35,253</u> |

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

- (c) No segment assets and liabilities, and other related segment information were presented as no such discrete financial information are provided to the chief operating decision maker.

5. OTHER INCOME

| | Six months ended 30 June | |
|---------------------------------------------------------------|--------------------------|---------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest income on bank deposits | 12,143 | 17,785 |
| Interest income earned from a joint venture (<i>note i</i>) | 10,469 | 12,044 |
| Government grants (<i>note ii</i>) | 23,300 | 6,449 |
| Rental income | 852 | 3,736 |
| | <u>46,764</u> | <u>40,014</u> |

Notes:

- i. During the six months ended 30 June 2016, the Group earned interest income from 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd (“Sunshine Oji”)), a joint venture of the Company, at an effective weighted average annual rate of 7.09% per annum (six months ended 30 June 2015: 7.80% per annum).
- ii. During the six months ended 30 June 2016, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd. (“Century Sunshine”)), a subsidiary of the Company, was granted unconditional government subsidy from local government of approximately RMB21,846,000 (six months ended 30 June 2015: RMB4,359,000).

6. OTHER GAINS OR LOSSES

| | Six months ended 30 June | |
|-----------------------------------------------------------|--------------------------|-----------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Changes in fair value of investment properties | (3,047) | (3,471) |
| Changes in fair value of derivative financial instruments | — | (40) |
| Gain on disposal of a subsidiary | 8,067 | — |
| Net exchange loss | (2,769) | (9,136) |
| Loss on disposal of property, plant and equipment | (6,663) | (1,772) |
| Others | 1,640 | 1,710 |
| | <u>(2,772)</u> | <u>(12,709)</u> |

7. FINANCE COSTS

| | Six months ended 30 June | |
|--------------------------------------------------------|--------------------------|----------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest expenses on: | | |
| Discounted bill financing | 45,115 | 68,286 |
| Bank and other borrowings | 73,674 | 64,794 |
| Finance leases | 380 | 8,090 |
| Short-term financing notes | — | 1,296 |
| Corporate bond | 26,011 | 21,011 |
| | <u>145,180</u> | <u>163,477</u> |
| Less: Interest capitalised in construction in progress | (618) | (6,359) |
| | <u>144,562</u> | <u>157,118</u> |

Borrowing costs capitalised during the six months ended 30 June 2016 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.9% (six months ended 30 June 2015: 6.6%) per annum to expenditure on construction in progress.

8. INCOME TAX EXPENSES

| | Six months ended 30 June | |
|----------------------------------------------------------|--------------------------|----------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Current income tax | | |
| People's Republic of China ("PRC") Enterprise Income Tax | 25,138 | 8,552 |
| Deferred tax credit | (684) | (2,132) |
| Charge for the period | <u>24,454</u> | <u>6,420</u> |

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, the tax rate of the PRC subsidiaries of the Group is 25% from 1 January 2008 onwards.

No provision for Hong Kong Profit Tax had been made for the six months ended 30 June 2016 and 2015 as the Group did not have any assessable profit arising in Hong Kong during both periods.

9. PROFIT FOR THE PERIOD

Profit before tax has been arrived at after charging:

| | Six months ended 30 June | |
|-----------------------------------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Wages and salaries | 73,665 | 67,577 |
| Retirement benefits schemes contributions | 13,000 | 10,850 |
| | <hr/> | <hr/> |
| Total staff costs (including directors' emoluments) | 86,665 | 78,427 |
| | <hr/> | <hr/> |
| Cost of inventories recognised as an expense | 1,487,073 | 1,452,505 |
| Depreciation of property, plant and equipment | 119,870 | 108,473 |
| Release of prepaid lease payments | 2,962 | 2,760 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. DIVIDENDS

During the current interim period, a final dividend of HK\$0.03 per share in respect of the year ended 31 December 2015 amounting to a total of HK\$24,077,640 (equivalent to approximately RMB20,579,000) (six months ended 30 June 2015: nil) was approved and paid to the equity shareholders of the Company whose name appears in the register of members on 8 June 2016.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2016 was based on the profit of RMB61,854,000 (six months ended 30 June 2015: RMB27,068,000) for the period attributable to owners of the Company, and the weighted average number of 802,588,000 (six months ended 30 June 2015: 802,588,000) ordinary shares in issue during the six months ended 30 June 2016.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2016 and 2015. The basic earnings per share equals to the diluted earnings per share.

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|-------------|-----------------------------------------------------------|-------------------------------------------------------------|
| 0–30 days | 329,280 | 329,797 |
| 31–90 days | 97,385 | 58,551 |
| 91–365 days | 4,893 | 24,659 |
| Over 1 year | 3,035 | 3,084 |
| | <u>434,593</u> | <u>416,091</u> |

13. BILLS RECEIVABLE

The aged analysis of bills receivable presented based on issue date at the end of the reporting period is as follows:

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|--------------|-----------------------------------------------------------|-------------------------------------------------------------|
| 0–90 days | 241,009 | 235,830 |
| 91–180 days | 27,332 | 109,899 |
| 181–365 days | 18,574 | 1,820 |
| | <u>286,915</u> | <u>347,549</u> |

As at 30 June 2016, the Group has discounted bills receivable of RMB116,105,000 (31 December 2015: RMB186,000,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivable and has recognised the cash received upon the discounting as discounted bill financing (see Note 16).

14. TRADE AND BILLS PAYABLES

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

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|-------------|-----------------------------------------------------------|-------------------------------------------------------------|
| 0–90 days | 686,614 | 668,197 |
| 91–365 days | 279,334 | 240,336 |
| Over 1 year | 18,574 | 44,297 |
| | <u>984,522</u> | <u>952,830</u> |

All the bills payable as at 30 June 2016 and 31 December 2015 are trading nature and will mature within twelve months respectively.

15. OBLIGATIONS UNDER FINANCE LEASE

The Group has entered into several sale and leaseback transactions with independent third parties by way of sale and lease back of certain machineries. In accordance with the lease agreements, the term of the lease was 2 to 5 years and the Group has the option to purchase the assets at a nominal consideration upon the end of the lease term. Such transaction was considered as sale and leaseback arrangement resulting in a finance lease.

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|-------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|
| Analysed for reporting purposes as: | | |
| Current liabilities | 59,184 | 69,828 |
| Non-current liabilities | 68,116 | 72,740 |
| | <u>127,300</u> | <u>142,568</u> |

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 6.80% to 7.30% (31 December 2015: 6.80% to 7.73%) per annum.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---------------------------------------------------------------------------------------|--------------------------------------------|------------------------------------------------|--------------------------------------------|------------------------------------------------|
| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> |
| Amounts payable under finance leases | | | | |
| Within one year | 64,930 | 75,562 | 59,184 | 69,828 |
| In more than one year but not more than two years | 38,185 | 40,400 | 35,438 | 37,862 |
| In more than two years but not more than five years | 33,621 | 36,003 | 32,678 | 34,878 |
| | <u>136,736</u> | <u>151,965</u> | <u>127,300</u> | <u>142,568</u> |
| Less: future finance charges | <u>(9,436)</u> | <u>(9,397)</u> | <u>—</u> | <u>—</u> |
| Present value of lease obligations | <u>127,300</u> | <u>142,568</u> | <u>127,300</u> | <u>142,568</u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | <u>(59,184)</u> | <u>(69,828)</u> |
| Amount due for settlement after 12 months | | | <u>68,116</u> | <u>72,740</u> |

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

16. DISCOUNTED BILL FINANCING

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|
| Discounted bill financing | | |
| Comprising: | | |
| Discounted bills receivable from third parties | 116,105 | 186,000 |
| Discounted bills receivable from subsidiaries of the Group | 1,888,424 | 1,824,129 |
| Total | <u>2,004,529</u> | <u>2,010,129</u> |

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

During the current interim period, bank bills issued by certain subsidiaries of the Group to the suppliers and other subsidiaries within the Group were discounted to the banks for financing.

17. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,009,435,000 (six months ended 30 June 2015: RMB1,543,760,000), and repaid loans amounting to RMB1,143,470,000 (six months ended 30 June 2015: RMB1,360,734,000). The newly raised loans bear interest from 1.80% to 6.60% per annum (six months ended 30 June 2015: 1.95% to 8.50%).

18. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bonds on 23 July 2014. The final offering size of the seven-year corporate bonds was RMB500,000,000 with annual coupon rate of 8.19% per annum. The corporate bonds are guaranteed by 中合中小企業融資擔保有限公司 (China United SME Guarantee Corporation), and is with counter-guarantee arrangement with the Group's one piece of investment property of RMB183,181,000, and will be repaid with 20% of offering size annually from the year 2017 to year 2021.

19. CAPITAL COMMITMENTS

| | As at 30 June 2016 <i>RMB'000</i> (Unaudited) | As at 31 December 2015 <i>RMB'000</i> (Audited) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment | <u>25,156</u> | <u>79,190</u> |

OPERATION REVIEW

In the first half of 2016, global economic development remained sluggish. Meanwhile, as certain issues of structural over-capacity surfaced, the paper manufacturing industry continued to be plagued by weak demand. Members of our Group centered on “innovation and revolution” and concentrated on reforms in relation to logistics and purchase so as to continuously improve the standard of supply-chain management. Our Group enhanced the operation standard of enterprise resource planning and further facilitated our management and internal control to promote the spirit of “craftsmanship”. All our officers and staff members had kept a keen eye on opportunities. For the six months ended 30 June 2016, our Group achieved a sales volume of approximately 603,000 tons, representing a growth of approximately 4.8% over the corresponding period last year. Our Group continued to maintain a sound balance between sales and production and reached a historic high in sales volume.

While our Group relentlessly refined our internal management standard, external environment had been favourable as the government introduced a preferential policy on value-added tax rebates for recycled paper manufacturers, which further boosted the productivity and efficiency of enterprises. For the six months ended 30 June 2016, our Group achieved an overall gross profit margin of 21.4%, as compared to 20.8% for the corresponding period last year.

OUTLOOK

Signs of improvement for future macro-economic condition have been far and between. The paper manufacturing, printing and packaging industry has not yet rebounded from the slump and is undergoing a staggering period of intensifying comprehensive reforms with both challenges and opportunities. Following the introduction and implementation of more stringent environmental policies, obsolete capacity will be eliminated and the entry barrier of paper manufacturing industry will be raised. The decrease in the number of new and alteration projects shall be beneficial to fair competitions between enterprises and the realization of the economies of scale.

Our Group will continue to promote the spirit of entrepreneurship, innovation and creation and offer better products and services. Meanwhile, the completion and the commencement of operation of the container yard will further reduce logistics costs and bring about resource sharing, enterprise efficiency and society efficiency in one go. As always, our Group will be committed to social responsibility and put into practice the principles of environmental costs and natural harmony. Our Group will adapt to the environment which requires constant reforms and achieve sustainable and healthy corporate development.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 4.5% from RMB1,887.1 million for the six months ended 30 June 2015 (“1H 2015”) to RMB1,971.4 million for the six months ended 30 June 2016 (“1H 2016”), primarily as a result of an increase in sales of paper products.

Sales of paper products increased by 5.5% or RMB98.0 million, from RMB1,779.7 million for 1H 2015 to RMB1,877.7 million for 1H 2016, mainly driven by the increase in sales volume. Average selling price of paper products for 1H 2016 was comparable to that for 1H 2015. On the contrary, sales of electricity and steam recorded a decrease of 12.8%, from RMB107.4 million for 1H 2015 to RMB93.7 for 1H 2016. The decrease in sales of electricity and steam reflected the adjustment in its selling price as a result of lower procurement cost for coal.

The table below sets forth the sales and gross profit margin by different business segments for the period indicated:

| | 1H 2016 | | | 1H 2015 | | |
|-------------------------------------|------------------|----------------------|---------------------------|------------------|----------------------|---------------------------|
| | <i>RMB'000</i> | <i>GP margin (%)</i> | <i>% of total revenue</i> | <i>RMB'000</i> | <i>GP margin (%)</i> | <i>% of total revenue</i> |
| White top linerboard | 568,921 | 18.6 | 28.9 | 547,663 | 18.1 | 29.0 |
| Light-coated linerboard | 815,797 | 25.8 | 41.4 | 836,717 | 21.0 | 44.3 |
| Core board | 230,246 | 20.7 | 11.7 | 237,441 | 22.6 | 12.6 |
| Specialized paper products | 262,709 | 15.3 | 13.3 | 157,856 | 27.5 | 8.4 |
| Subtotal of sales of paper products | 1,877,673 | 21.5 | 95.2 | 1,779,677 | 20.9 | 94.3 |
| Sales of electricity and steam | 93,745 | 19.1 | 4.8 | 107,441 | 19.2 | 5.7 |
| Total revenue | <u>1,971,418</u> | <u>21.4</u> | <u>100.0</u> | <u>1,887,118</u> | <u>20.8</u> | <u>100.0</u> |

Cost of sales

Cost of sales mainly comprised of raw materials cost, labour cost and manufacturing overhead cost such as depreciation and energy consumption.

Cost of sales increased by 3.6% or RMB54.3 million, from RMB1,495.1 million for 1H 2015 to RMB1,549.4 million for 1H 2016, primarily due to increased procurement of raw materials for production. The increase in cost of sales was generally in line with the increase in revenue.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by RMB30.0 million from RMB392.0 million for 1H 2015 to RMB422.0 million for 1H 2016. Gross profit margin recorded a slight increase of 0.6 percentage points, from 20.8% for 1H 2015 to 21.4% for 1H 2016.

Other profit and loss items

Other income of RMB46.8 million for 1H 2016 (1H 2015: RMB40.0 million) mainly consisted of interest income on bank deposits of RMB12.1 million, interest income earned from a joint venture of RMB10.5 million and government grants of RMB23.3 million.

Other losses of RMB2.8 million for 1H 2016 (1H 2015: RMB12.7 million) mainly comprised a negative change in fair value of investment properties of RMB3.0 million, gain on disposal of a subsidiary of RMB8.1 million, net exchange loss of RMB2.8 million and loss on disposal of property, plant and equipment of RMB6.7 million.

Distribution and selling expenses primarily consisted of transportation costs and staff costs relating to sales and marketing. It was RMB136.8 million for 1H 2016, which was roughly the same as that of RMB136.9 million for 1H 2015. As a percentage of revenue, it slightly decreased from 7.3% for 1H 2015 to 6.9% for 1H 2016.

Administrative expenses primarily consisted of (i) salaries and other benefits for general and administrative staff, (ii) travel expenses, (iii) depreciation of office buildings and equipment and (iv) office general expenses. Administrative expenses increased by RMB7.0 million, or 9.0%, from RMB78.2 million for 1H 2015 to RMB85.2 million for 1H 2016. As a percentage of revenue, it slightly increased from 4.1% for 1H 2015 to 4.3% for 1H 2016.

Finance costs recorded a decrease of around 8.0%, from RMB157.1 million for 1H 2015 to RMB144.6 million for 1H 2016. The decrease in finance costs reflected the renewal of lower interest bearing bank borrowings and a relatively lower effective interest for the corporate bonds during 1H 2016.

Share of loss of a joint venture of RMB10.2 million (1H 2015: RMB11.8 million) represented the share of loss of our joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd.

Income tax expenses

Our income tax expenses increased from RMB6.4 million for 1H 2015 to RMB24.5 million for 1H 2016. The applicable enterprise income tax rate for our subsidiaries for both 1H 2016 and 1H 2015 were roughly the same. A reversal of deferred tax charge for 1H 2015 resulted in a lower effective tax rate of 18.2% for 1H 2015 as compared to that of 27.4% for 1H 2016.

Profit and total comprehensive income

As a result of the factors discussed above, the net profit and the net profit attributable to the owners of the Company for 1H 2016 was RMB64.7 million and RMB61.9 million, respectively, as compared to that of RMB28.8 million and RMB27.1 million, respectively, for 1H 2015.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital, gearing and financial resources

Our Group has funded our operations principally with cash generated from our operations, bank borrowings and credit facilities provided by commercial banks in China. In addition, the seven-year corporate bonds of RMB500.0 million issued in 2014 have further strengthened our liquidity position.

As at 30 June 2016, our Group possessed restricted bank deposits of RMB1,636.2 million (31 December 2015: RMB1,506.5 million) and cash and bank balances of RMB429.7 million (31 December 2015: RMB326.9 million). The debt of our Group comprised of bank and other borrowings, obligations under finance leases and corporate bonds totaled RMB2,570.3 million as at 30 June 2016 (31 December 2015: RMB2,720.6 million). Our net gearing ratio was 30.3% as at 30 June 2016, representing a continuous improvement as compared to 54.8% as at 31 December 2015.

Inventories decreased from RMB375.1 million as at 31 December 2015 to RMB273.8 million as at 30 June 2016. Our Group aimed at releasing cash by strategically lower inventories level throughout 1H 2016. Inventory turnover was 38 days for 1H 2016, as compared to 39 days for 1H 2015.

Trade receivables slightly increased from RMB416.1 million as at 31 December 2015 to RMB434.6 million as at 30 June 2016. The increase in trade receivables was generally in line with the increase in our Group's total revenue. Trade receivables turnover was 39 days for 1H 2016, as compared to 41 days for 1H 2015. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded a decrease from RMB778.8 million as at 31 December 2015 to RMB733.5 million as at 30 June 2016. Trade payable turnover was 89 days for 1H 2016, as compared to 76 days for 1H 2015.

Current ratio was 0.67 times as at 30 June 2016 (31 December 2015: 0.66 times).

Notes to financial ratios

- (1) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (2) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.
- (3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (4) Current ratio equals current assets divided by current liabilities as of the end of the period.
- (5) Net gearing ratio equals the total of bank and other borrowings, obligations under finance leases and corporate bonds, net of bank and cash balances and restricted bank deposits, divided by the total equity as of the end of the period.

Cash flows

The following table sets forth a summary of cash flows for the period indicated:

| | 1H 2016 RMB'000 (Unaudited) | 1H 2015 <i>RMB'000</i> (Unaudited) |
|----------------------------------------------------------|--------------------------------------------------------|------------------------------------------|
| Net cash from operating activities | 594,958 | 374,593 |
| Net cash used in investing activities | (170,501) | (155,254) |
| Net cash used in financing activities | (322,176) | (219,950) |
| Net increase/(decrease) in cash and cash equivalents | 102,281 | (611) |
| Cash and cash equivalents at the beginning of the period | 327,377 | 302,127 |
| Cash and cash equivalents at the end of the period | 429,658 | 301,516 |

During 1H 2016, our Group recorded an increase in net cash from operating activities mainly due to our strategically lower inventories level to release more free cash. Net cash used in investing activities mainly represented cash paid for the acquisition of property, plant and equipment, loan advanced to a joint venture and the increase in restricted bank deposits. The increase in net cash used in financing activities during 1H 2016 was mainly driven by the net repayment of bank and other borrowings of approximately RMB135.5 million.

Capital expenditure

Our Group incurred approximately RMB14.3 million to enhance the productivity of existing plant and equipment, and approximately RMB61.6 million on construction in progress during 1H 2016.

Capital commitments and contingent liabilities

As at 30 June 2016, our Group had capital commitments, which were contracted but not provided for, for acquisition of property, plant and equipment of RMB25.2 million.

There was no contingent liabilities as at 30 June 2016.

Pledge of assets

As at 30 June 2016, the carrying amount of our assets of RMB2,633.3 million and the fair value of our investment property of RMB183.2 million were pledged as collateral or security for our Group's bank loans and corporate bond.

CORPORATE GOVERNANCE

Our Company is committed to achieve a high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout 1H 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 throughout 1H 2016.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our Company's financial reporting process, internal control and risk management system and to provide advice and comments to our Board. The audit committee consists of three independent non-executive Directors, namely Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie. Mr. Leung Ping Shing is the chairman of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for 1H 2016 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated financial statements of our Group for 1H 2016 have been reviewed by the Company's auditors, Grant Thornton Hong Kong Limited, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

EMPLOYEES AND REMUNERATION POLICIES

Our Group had approximately 2,890 employees as at 30 June 2016. The staff costs for 1H 2016 were RMB86.7 million (1H 2015: RMB78.4 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. Employees' remuneration packages are generally determined based on job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

INTERIM DIVIDEND

The Board has not recommended the payment of an interim dividend for 1H 2016 (1H 2015: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of our Company's shares.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunshinepaper.com.cn) and the interim report containing all the information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

Our Board would like to take this opportunity to express its gratitude to our shareholders, our business associates and all our employees for their continuous support.

By order of the Board
China Sunshine Paper Holdings Company Limited
Wang Dongxing
Chairman

Shanghai, China 26 August 2016

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

Executive Directors: *Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai*

Non-executive Directors: *Mr. Li Hengwen and Mr. Xu Leihua*

Independent non-executive Directors: *Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie*