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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Revenue increased by 41.6% to approximately RMB1,090 million
- Gross profit margin increased from 13.0% to 19.9%
- Net profit margin increased from 1.6% to 7.2%
- Net profit attributable to the owners of the Company increased by nearly 6.6 times to RMB76.8 million

INTERIM RESULTS

The board (the "Board") of directors ("Directors") of China Sunshine Paper Holdings Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 as follows:

* *For identification purpose*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Six months ended 30 June 2010** *RMB'000* **(unaudited)**	Six months ended 30 June 2009 *RMB'000* (unaudited)
Revenue	*4*	**1,089,507**	769,426
Cost of sales		**(872,311)**	(669,096)
Gross profit		**217,196**	100,330
Other income		**47,585**	33,166
Other expense		**(8,917)**	(3,145)
Selling and distribution expenses		**(63,407)**	(54,103)
Administrative expenses		**(49,548)**	(32,890)
Change in fair value of derivative financial instruments		**(7,564)**	(189)
Finance costs		**(46,924)**	(26,765)
Profit before tax	*5*	**88,421**	16,404
Income tax expenses	*6*	**(9,907)**	(4,371)
Profit and total comprehensive income for the period		**78,514**	12,033
Profit and total comprehensive income attributable to:			
Owners of the Company		**76,781**	10,141
Minority Interests		**1,733**	1,892
		78,514	12,033
Earnings per share	*8*		
— Basic and diluted		**0.19**	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Non-current assets			
Property, plant and equipment	9	**2,772,566**	1,897,055
Prepaid lease payments		**106,236**	90,650
Goodwill		**18,692**	18,692
Deferred tax assets		**11,318**	9,910
		2,908,812	2,016,307
Current assets			
Prepaid lease payments		**2,168**	1,969
Inventories		**409,394**	400,075
Trade receivables	10	**182,913**	137,919
Bills receivable	10	**679,204**	533,115
Prepayments and other receivables		**156,691**	56,745
Restricted bank deposits		**414,647**	363,961
Bank balances and cash		**234,997**	357,505
		2,080,014	1,851,289
Current liabilities			
Trade payables	11	**446,046**	356,650
Bills payable	11	**68,238**	10,000
Other payables		**90,076**	81,689
Payable for construction work, machinery and equipment		**357,603**	192,789
Income tax payable		**11,982**	7,045
Dividend payable		**20**	—
Deferred income — current portion		**1,020**	1,925
Derivative financial instruments		**12,266**	4,998
Discounted bill financing	12	**178,342**	126,606
Bank borrowings — due within one year	13	**1,398,487**	1,152,506
Other borrowings — due within one year		**17,915**	17,442
		2,581,995	1,951,650
Net current liabilities		**(501,981)**	(100,361)
Total assets less current liabilities		**2,406,831**	1,915,946
Capital and reserves			
Share capital	14	**37,872**	37,872
Reserves		**1,259,063**	1,190,289
Equity attributable to owners of the Company		**1,296,935**	1,228,161
Minority interests		**53,104**	41,876
Total equity		**1,350,039**	1,270,037
Non-current liabilities			
Bank borrowings — due after one year	13	**1,019,890**	610,401
Deferred income — non-current portion		**28,331**	27,285
Deferred tax liabilities		**8,571**	8,223
		1,056,792	645,909
Total equity and non-current liabilities		**2,406,831**	1,915,946

NOTES:

1. GENERAL INFORMATION

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

The principal activities of the 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 and with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The Group has net current liabilities of approximately RMB501,981,000 as at 30 June 2010. The directors are of the opinion that, taking into account the present available banking facilities of approximately RMB1,358,901,000 (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and the internal financial resources of the Group, the Group has sufficient working capital to meet 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 convention, except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in 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 2009 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRS") which are effective for the Group's financial year beginning on 1 January 2010.

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised) and the consequential amendments to the other HKFRSs are applicable.

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the additional acquisition during the period of the Group's interests in a subsidiary, Changdong Paper Recovery, the impact of the change in policy has been that the difference of RMB15,000 between the consideration paid and the decrease in the carrying amount of the non-controlling interests has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in goodwill. Therefore, the change in accounting policy has resulted in a decrease in goodwill for the period of RMB15,000. In addition, cash consideration of RMB500,000 paid to the non-controlling shareholders is presented as cash flow used in financing activities.

Except as described above, the application of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs May 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Right Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopter[3]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations 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.

(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 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**

Six months ended 30 June 2009

	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	350,963	166,115	168,019	42,218	—	42,111	769,426
Inter-segment revenue	—	—	—	—	—	111,792	111,792
Segment revenue	350,963	166,115	168,019	42,218	—	153,903	881,218
Segment profit	45,625	26,745	18,818	3,040	—	13,702	107,930

(b) Reconciliations of reportable segment profit

	Six months ended 30 June 2010 *RMB'000*	Six months ended 30 June 2009 *RMB'000*
Profit		
Reportable segment profit	**220,182**	107,930
Unrealized profit on intragroup sales	**(13,028)**	(16,650)
	207,154	91,280
Selling and distribution expenses	**(63,407)**	(54,103)
Administrative expense	**(43,735)**	(28,710)
Other income	**45,060**	33,037
Other expense	**(8,917)**	(3,095)
Finance cost	**(40,170)**	(21,816)
Change in fair value of derivative financial instruments	**(7,564)**	(189)
Consolidated profit before taxation	**88,421**	16,404

Segment profit represents the gross profit earned by paper product segments and the profit before tax earned by electricity and steam segment separately. The Group does not allocate operating expenses and other income 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 2010 *RMB'000*	Six months ended 30 June 2009 *RMB'000*
Depreciation of property, plant and equipment	**40,149**	34,830
Government grants (note)	**(24,508)**	(22,686)
Interest income	**(12,487)**	(7,140)
Release of prepaid lease payments	**1,039**	947
Loss on disposal of property, plant and equipment	**1,597**	650
(Reversal of) allowance for bad debts	**(580)**	(3,918)
Exchange gain	**(416)**	(296)
Exchange loss	**119**	224

Note: Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the value-added tax policies on renewable resources (Cai Shui [2008] No. 157), which took effect from 1 January 2009, Changle Changdong Waste Paper Recovery Co., Ltd. ("Changdong Paper Recovery"), a subsidiary of the Company that engages in renewable resources business, is qualified as an ordinary value-added tax payer and is required to settle value-added taxes prior to getting tax refund for each of the year ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% and 50%, respectively, of the value-added tax payment on renewable resources sales made by Changdong Paper Recovery in 2009 and 2010 shall be refunded. Changdong Paper Recovery is entitled to RMB22,077,000 of tax refund (six months ended 30 June 2009: RMB21,443,000) during the period.

6. INCOME TAX EXPENSES

	Six months ended 30 June 2010 *RMB'000*	Six months ended 30 June 2009 *RMB'000*
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**10,967**	3,539
Deferred tax (credit) charge	**(1,060)**	832
Charge for the period	**9,907**	4,371

In 2008, the Ministry of Finance and the State Administration of Taxation issued several tax circulars which clarify the implementation of the New Enterprise Income Tax Law ("New Tax Law") and which have an impact on foreign investment enterprises. 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" will continue to enjoy preferential treatment for their initial term as prescribed under the previous tax laws, administrative regulations and related documents after the New Tax Law take effect until the initial term expires. 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) and 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.), the PRC subsidiaries of the Company, are levied at 12.5% (2009: 12.5%) for the six months ended 30 June 2010 based on relevant tax circulars. Other PRC subsidiaries are subject to the statutory tax rate of 25% for both periods.

No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2009 and 2010 as the Group did not have any assessable profit during both periods.

7. DIVIDENDS

During the current period, a dividend of HK$0.024 per share (equivalent to approximately RMB0.021 per share) (2009: HK$0.036 per share), amounting to an aggregate amount of approximately RMB8,397,000 was declared and paid to shareholders as the final dividend for 2009 (2009: RMB12,727,000 in aggregate was paid in respect of final dividend for 2008).

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

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 2010	Six months ended 30 June 2009
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**76,781**	10,141

	Six months ended 30 June 2010	Six months ended 30 June 2009
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**401,044**	401,044

The computation of diluted earnings per share does not assume the exercise of share options as the exercise prices of share options were higher than the average market price during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB33,307,000 (2009: RMB14,018,000) on the acquisition of property, plant and equipment and approximately RMB885,685,000 (2009: RMB102,248,000) on construction in progress in order to increase its manufacturing capabilities.

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB3,332,000 (2009: RMB1,542,000) for proceeds of RMB1,735,000 (2009: RMB742,000), resulting in a loss on disposal of RMB1,597,000 (2009: RMB650,000).

10. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged 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 2010 *RMB'000*	At 31 December 2009 *RMB'000*
0–30 days	**165,860**	97,721
31–90 days	**7,776**	29,024
91–365 days	**8,860**	9,097
Over 1 year	**417**	2,077
	182,913	137,919

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

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
0–90 days	**354,569**	235,493
91–180 days	**324,635**	297,622
	679,204	533,115

Bills receivable of approximately RMB185,824,000 (31 December 2009: RMB251,524,000) was endorsed with recourse to creditors as at 30 June 2010 and the corresponding trade payables of RMB185,824,000 (31 December 2009: RMB251,524,000) were included in the condensed consolidated statement of financial position accordingly.

11. TRADE AND BILLS PAYABLES

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

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
0–90 days	**305,048**	195,452
91–365 days	**122,838**	153,284
Over 1 year	**18,160**	7,914
	446,046	356,650

All the bills payable are trading nature and will mature within six months.

12. DISCOUNTED BILL FINANCING

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

13. BORROWINGS

The Group obtained new bank loans amounting to RMB1,313,103,000 (2009: RMB550,929,000), and repaid RMB657,160,000 (2009: RMB625,404,000) during the period. The newly raised loans bear interest at market rates from 0.91% to 7.96% per annum (2009: 0.93% to 6.90% per annum).

14. SHARE CAPITAL

	Number of shares	**Share capital**	
			Shown in the condensed consolidated financial statement
		HK$'000	*RMB'000*
Issued and fully paid			
Ordinary shares of HK$0.1 each			
At 31 December 2009 and 30 June 2010	401,044,000	40,104	37,872

BUSINESS REVIEW

Operation

With the economic stimulus measures and other local policies on stimulation of domestic consumption implemented by the PRC government, the packaging paper industry began to pick up at a fast pace in 2010. Leveraging on the Group's improved operational efficiency, expanded marketing and distribution network and optimized cost structure, the Group's operating results for the first half of 2010 was boosted as a result of an increase in its profit margins and the business returned to a sustainable growth track.

As at 30 June 2010, the Group operated four production lines with a designed annual production capacity of approximately 650,000 tonnes, comprising 330,000 tonnes white top linerboard and light coated linerboard, 260,000 tonnes core board and 60,000 tonnes specialized paper. The Group attained a utilization rate of over 90% for its production lines for the first half of 2010.

The installation of the fifth production line ("PL 5") with a designed annual production capacity of approximately 500,000 tonnes white top linerboard and light coated linerboard is currently underway and is expected to commence its commercial production in October 2010. By then, the Group's total designed annual production capacity will reach approximately 1,150,000 tonnes.

Production line	Location	Products	Designed annual production capacity *(tonnes)*
PL 1	Weifang	White top linerboard	110,000
PL 2	Weifang	White top linerboard and light-coated linerboard *	220,000
PL 3	Weifang and Kushan	Specialized paper products	60,000
PL 4	Weifang	Core board	260,000
Sub-total for existing production lines			650,000
PL 5#	Weifang	White top linerboard and light-coated linerboard *	500,000
Total			1,150,000

* Production of white top linerboard and light-coated linerboard is interchangeable for these production lines.

\# PL 5 is expected to commence its production in October 2010.

PL 5 will consume a significant amount of electricity and steam for its operation. Accordingly, the Group has already built a new power and steam generation plant to provide a secured, stable and low-cost power and steam for the operation of PL 5. It is estimated that over 90% of power and steam required for the Group's daily operation will be supplied by its self-operated power and steam generation plants.

In addition, in order to meet the increasing consumption of recovered paper, the Group has established a subsidiary in the United States with the aim of purchasing overseas recovered paper at bulk quantity at a lower price. Meanwhile, the Group will continue to consolidate and develop its domestic recovered paper collection bases spanning across China to secure the supply of the domestic recovered paper.

Outlook

Various market data and indicators revealed that the domestic consumption segments, especially food and beverages industries in which our key customers operate, has shown noticeable signs of recovery from the financial tsunami. Therefore, the management of the Group is of the view that the packaging paper industry is expected to grow at a fast pace in the next few years. PL 5 is set to capture the business opportunities of the growing demand for packaging paper, especially high-end environmental friendly packaging paper light-coated linerboard, and to position the Group for a larger market share.

Raw materials price is expected to fluctuate at a high-price range in the second half of 2010. However, the stable supply of recovered paper at a lower cost sourced by the Group's subsidiary in the United States and its domestic recovered paper collection bases, as well as adjustment on its raw material mix will enable the Group to minimize the negative impact of high raw materials price.

Looking forward, with the commencement of the production of PL 5 in October 2010, the Group is at a prime position to address the market demand for high-end packaging paper while enhancing the Group's profit margin. It also enables the Group to further increase its market share in packaging paper in a relatively short period of time. The Group is confident that its competitive edge will enable it to maintain its success in this industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of paper products

For the six months ended 30 June 2010 ("1H 2010"), the Group's revenue on sales of paper products was RMB1,005.7 million, representing an increase of approximately 38.3% as compared to RMB727.3 million for the corresponding period in 2009 ("1H 2009"). Sales volume of the Group's paper products reached approximately 290,000 tonnes for 1H 2010 as compared to approximately 270,000 tonnes for 1H 2009. The average selling price ("ASP") for each of the Group's core paper products, namely white top linerboard, light-coated linerboard and core board, were approximately RMB3,800 per ton, RMB4,000 per ton and RMB2,330 per ton, respectively, representing an increase of approximately 18.0%, 21.0% and 22.0%, respectively, as compared to that of 1H 2009.

Sales of raw materials, electricity and steam

The core business of the Group remained the manufacturing and sales of paper products. Sales of electricity and steam were mainly made to a minority shareholder of a subsidiary of the Group. The Group's revenue on sales of electricity and steam for 1H 2010 was RMB50.6 million (1H 2009: RMB42.1 million), accounting for an approximately 4.6% (1H 2009: approximately 5.5%) of the Group's total revenue.

Revenue of RMB33.2 million on sales of raw materials for 1H 2010 was primarily generated from the resale of blenched hardwood kraft pulp purchased by the Group during the financial tsunami period.

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

	1H 2010			1H 2009		
		Gross profit margin			**Gross profit margin**	
	RMB'000	*(%)*	*%*	*RMB'000*	*(%)*	*%*
White top linerboard	422,306	21.6	38.8	350,963	13.0	45.6
Light-coated linerboard	287,000	25.8	26.3	166,115	16.1	21.6
Core board	204,742	13.0	18.8	168,019	11.2	21.8
Specialized paper products	91,690	11.0	8.4	42,218	7.2	5.5
Subtotal for sales of paper products	1,005,738	20.1	92.3	727,315	12.9	94.5
Sales of raw materials	33,173	29.0	3.1	—	—	—
Sales of electricity and steam	50,596	10.5	4.6	42,111	14.7	5.5
Total revenue of the Group	1,089,507	19.9	100.0	769,426	13.0	100.0

China continued to be the Group's principal market. Sales made to China accounted for approximately 99.5% of the Group's total sales in 1H 2010. (1H2009: 99.3%).

Cost of sales

Cost of sales mainly comprised raw materials cost, labour cost and manufacturing overheads, which mainly included depreciation, energy cost, consumables and other overhead related expenses.

Raw materials cost was the largest component of the cost of sales and represented approximately 75.2% of the cost of sales for 1H2010 (73.3% for 1H 2009). Raw materials cost for 1H 2010 was RMB655.6 million, representing approximately 33.7% increase as compared to RMB490.4 million for 1H 2009. The increase in raw material costs was generally in line with the increase in sales of paper products.

Approximately two-third of the Group's recovered paper consumed was purchased in China ("domestic recovered paper") and the reminder was primarily sourced from the United States ("overseas recovered paper"). Around 40% of the domestic recovered paper was sourced from the Group's domestic recovered paper collection bases.

Manufacturing overhead for 1H2010 was RMB197.8 million, representing approximately 20.0% of increase as compared to RMB164.7 million for 1H 2009. The increase in manufacturing overhead primarily resulted from the increase in electricity and steam expenses, which were in line with the increase in the production volume of the Group.

The following table sets out the breakdown of the cost of sales for 1H 2010 and 1H 2009:

	1H 2010		1H 2009	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials cost				
Domestic recovered paper	331,994	38.1	175,906	26.3
Overseas recovered paper	126,337	14.5	111,140	16.6
Kraft pulp	93,443	10.7	81,484	12.2
Chemicals and others	103,785	11.9	121,849	18.2
	655,559	75.2	490,379	73.3
Labour costs	18,932	2.2	14,013	2.1
Overhead costs	197,820	22.6	164,704	24.6
Total	872,311	100.0	669,096	100.0

Gross profit and gross profit margin

As a result of the increase in the ASP of the paper products and the success in stringent cost control, the Group's gross profit increased by RMB116.9 million to RMB217.2 million for 1H 2010. The gross profit margin for the sales of paper products, raw materials, and electricity and steam were 20.1%, 29.0% and 10.5%, respectively, for 1H 2010, as compared to 12.9%, nil and 14.7%, respectively for 1H 2009. It was noticeable that the gross profit margin of light-coated linerboard, the Group's key product with enormous market potential, reached its historical high of 25.8% in 1H 2010 as compared to 16.1% in 1H 2009.

Other profit and loss items

Other income mainly comprised interest income of RMB12.5 million, government grants of RMB24.5 million, mainly relating to the valued-added tax refund for the purchase of domestic recovered paper.

Selling and distribution expenses primarily consisted of transportation cost, advertising and staff costs. Selling and distribution expenses recorded an increase of approximately 17.2% from 54.1 million for 1H 2009 to 63.4 million for 1H 2010, which was driven by the increase in the sale volume of paper products. Despite the increase in the absolute amount of the selling and distribution expenses for 1H 2010, as a percentage of the total revenue, the selling and distribution expenses fell from 7.0% in 1H 2009 to 5.8% in 1H 2010.

Administrative expenses increased from RMB32.9 million for 1H 2009 to RMB49.5 million for 1H 2010. It was mainly driven by (i) the increase in the number of administrative staff and their related expenses for PL 5, and (ii) an one-off write back of share option expenses of RMB5.5 million for 1H 2009.

Finance costs were RMB46.9 million and RMB26.8 million, respectively, for 1H 2010 and 1H 2009. The increase in finance cost primarily resulted from the increase in bank borrowings to finance the construction of PL 5.

Income tax

Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine"), a dominant subsidiary whose principle business activities are manufacturing and trading of paper products, continues to enjoy preferential tax reductions and exemptions of "two-year tax exemption followed by three-year 50% tax reduction" and is levied at 12.5% for the calendar year of 2010.

Income tax expenses for 1H 2010 was RMB9.9 million, representing an increase of 125.0% as compared to RMB4.4 million for 1H 2009. Despite the increase in the absolute amount of income tax expenses, the effective income tax rate for 1H 2010 was only 11.2%, compared to 26.7% for 1H 2009.

Net profit margin and net profit attributable to the owners of the Company

As a result of the factors discussed above, the net profit margin of the Group increased from 1.6% for 1H 2009 to 7.2% for 1H 2010. Net profit attributable to the owners of the Company for 1H 2010 increased by RMB66.7 million or nearly 6.6 times to RMB76.8 million as compared to RMB10.1 million for 1H 2009.

Liquidity and Financial Resources

During 1H 2010, the Group has taken several measures to improve its operating cash flow and to strengthen its liquidity position, and such measures include maintaining adequate level of inventories, enforcing the credit policy of accounts receivable strictly, adjusting the mix of short term and long-term bank borrowings, and negotiating long-term syndicated loans for capital expenditures.

Inventories slightly increased to RMB409.4 million as at 30 June 2010, as compared to RMB400.0 million as at 31 December 2009. Inventories mainly comprised raw materials of RMB264.2 million (31 December 2009: RMB277.6 million) and finished goods of RMB145.2 million (31 December 2009: RMB122.4 million). The number of inventory turnover days was 85.6 for 1H 2010, as compared to 100 for the fiscal year 2009. Trade receivables increased from RMB137.9 million as at 31 December 2009 to RMB182.9 million as at 30 June 2010. The number of trade receivable turnover days for 1H 2010 was 30.6, which was comparable to 29.7 for the fiscal year 2009 and in line with the Group's average credit period of 30 day given to its customers.

The Group generally finances its operation with its internally generated cash flow and credit facilities provided by its principal bankers. The operating cash inflow for 1H 2010 was RMB21.2 million, comparing to an operating cash outflow of RMB13.0 million for 1H 2009. As at 30 June 2010, the Group had bank balances and cash of RMB235.0 million, and restricted bank deposits of RMB414.6 million. The total of bank borrowings and other borrowings of the Group, which were mainly secured by guarantees and assets of the Group, was RMB2,436.3 million. The Group's net borrowings (total borrowings net of bank balances and cash, and restricted bank deposits) over total equity (the "net gearing ratio") and net borrowings over total assets were 132.3% and 35.8%, respectively, as at 30 June 2010, which was higher than 83.4% and 27.4%, respectively as at 31 December 2009. The increase in these two ratios was primary due to the increase in bank borrowings to finance the construction of PL 5.

As at 30 June 2010, the Group had net current liabilities of RMB502.0 million, compared to RMB100.4 as at 31 December 2009. The increase in net current liabilities mainly resulted from the increase in bank borrowings of RMB246.0 million, and payables for construction work, machinery and equipment of RMB164.8 million in relation to PL 5.

Notwithstanding the sharp increase in net current liabilities and net gearing ratio as at 30 June 2010, the Group possesses sufficient financial resources to meet its capital expenditure, debt repayment and working capital requirements. Besides the bank balances and cash of RMB235.0 million, restricted bank deposits of RMB414.6 and other current assets of RMB1,430.4 million, the Group had over RMB1,300 million unutilized banking facilities as at 30 June 2010. To resume a strong and solid financial ratio is a key mission for the Group's financial management in forthcoming years. Except PL 5 which will double the Group's production capacity by end of 2010, the Group has no other expansion plan to increase its paper production capacity. The Group endeavors to utilize the strong operating cash inflow generated from PL 5 to repay its bank borrowings and to restructure the mix of short-term and long-term bank borrowings, with the objective to improve its financial ratio.

The Group's transaction and monetary assets are mainly dominated in Renminbi. Most of the Group's monetary liabilities are also denominated in Renminbi, with the exception of some foreign currency bank borrowings amounting to RMB416.9 million as at 30 June 2010. To hedge foreign currency and interest rate exposures, the Group has entered into certain foreign currency forward contracts and interest rate swap contracts with various commercial banks.

Capital expenditure

During 1H 2010, the Group spent approximately RMB33.3 million to enhance the productivity of existing plant and equipment. Meanwhile, approximately RMB885.7 million has been incurred for the construction of PL 5.

Capital commitments and contingent liabilities

The Group had capital commitments of RMB305.9 million for acquisition of property, plant and equipment, which were contracted but not provided for, as at 30 June 2010. The Group had no material contingent liabilities as at 30 June 2010.

Use of net proceeds from the Company's IPO

As at 30 June 2010, all proceeds from the Company's initial public offering have been utilized in the manner as set out in to the Company's prospectus dated 29 November 2007.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve a high standard of corporate governance. The 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 2010, the Company has complied with the provision of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman and executive Director of the Company and also the general manager of Century Sunshine, a principal operating subsidiary of the Group. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, the Board considers that it is in the interest of the Group and the shareholders as a whole for him to be given the overall management responsibility of the Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang, is appropriate to the Company at this stage and believes such arrangement will maximise operation efficiency and will not result in any material adverse impact to the quality of operation and management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The 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 the Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code during the 1H 2010.

AUDIT COMMITTEE

The 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 the Company's financial reporting process and internal control system and to provide advice and comments to the Board. The audit committee consists of the three independent non executive Directors, namely Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie 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 2010 and discussed the financial matters with management. The unaudited condensed consolidated financial statements of the Group for 1H 2010 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 3,300 employees as at 30 June 2010. The staff costs for 1H 2010 were RMB33.6 million (1H2009: RMB28.0 million). The emolument policy of the 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. The Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of the Group's business development, so as to achieve the Group's operational targets.

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the 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

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

By order of the Board
Wang Dongxing
Chairman

Hong Kong, 30 August 2010

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

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong*
Non-executive Directors:	*Mr. Xu Fang and Mr. Wang Junfeng*
Independent non-executive Directors:	*Ms. Wong Wing Yee, Jessie, Mr. Wang Zefeng and Mr. Xu Ye*