

Orient Paper Inc.  
Form 10-Q  
May 10, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2011

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34577

ORIENT PAPER, INC.

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(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

20-4158835  
(IRS Employer identification No.)

Science Park, Juli Road, Xushui County, Baoding City  
Hebei Province, The People's Republic of China 072550  
(Address of principal executive offices)

011 - (86) 312-8698215  
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer ☒ T

Non-accelerated filer (Do not check if a smaller reporting company) ☐ Smaller reporting company ☒ £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒ T

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 18,350,191 shares of common stock, \$.001 par value, were outstanding as of May 10, 2011.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

ORIENT PAPER, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2011 AND DECEMBER 31, 2010  
(Unaudited)

	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$11,677,994	\$11,348,108
Notes receivable	-	308,539
Accounts receivable (net of allowance for doubtful accounts of \$62,243 and \$37,535 as of March 31, 2011 and December 31, 2010, respectively)	3,049,904	1,839,235
Inventories	5,469,776	7,422,518
Prepayments and other current assets	190,359	184,723
Total current assets	20,388,033	21,103,123
Prepayment on property, plant and equipment	7,001,416	6,957,258
Property, Plant, and Equipment, net	92,806,569	87,445,960
Total Assets	\$120,196,018	\$115,506,341
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Short-term bank loans	\$913,228	\$2,873,650
Current portion of long-term debt	-	2,008,530
Loan from related parties	2,054,763	2,041,804
Accounts payable	801,424	413,468
Accrued payroll and employee benefits	339,471	336,932
Other payables and accrued liabilities	1,932,029	2,363,686
Income taxes payable	3,343,931	1,717,127
Total current liabilities	9,384,846	11,755,197
Loan from credit union	1,499,216	-
Loan from related parties	2,223,089	2,209,068
Total liabilities	13,107,151	13,964,265
Commitments and Contingencies		
Stockholders' Equity	18,350	18,345

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Common stock, 500,000,000 shares authorized, \$0.001 par value per share, 18,350,191 and 18,344,811 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively		
Additional paid-in capital	45,758,020	45,727,656
Statutory earnings reserve	5,661,587	5,661,587
Accumulated other comprehensive income	7,801,731	7,138,233
Retained earnings	47,849,179	42,996,255
Total stockholders' equity	107,088,867	101,542,076
Total Liabilities and Stockholders' Equity	\$ 120,196,018	\$ 115,506,341

See accompanying notes to condensed consolidated financial statements.

ORIENT PAPER, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2011 AND 2010  
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenues	\$33,225,219	\$26,458,188
Cost of Sales	(25,453,511)	(21,617,659)
Gross Profit	7,771,708	4,840,529
Selling, General and Administrative Expenses	(860,286 )	(439,338 )
Loss from Disposal of Property, Plant and Equipment	(68,561 )	-
Income from Operations	6,842,861	4,401,191
Other Income (Expense):		
Interest income	11,146	27,188
Interest expense	(130,066 )	(163,317 )
Income before Income Taxes	6,723,941	4,265,062
Provision for Income Taxes	(1,871,017 )	(1,138,968 )
Net Income	4,852,924	3,126,094
Other Comprehensive Income:		
Foreign currency translation adjustment	663,498	8,943
Total Comprehensive Income	\$5,516,422	\$3,135,037
Earnings Per Share:		
Basic Earnings per Share	\$0.26	\$0.21
Fully Diluted Earnings per Share	\$0.26	\$0.21
Weighted Average Number of Shares		
Outstanding - Basic	18,346,722	14,889,545
Outstanding - Fully Diluted	18,346,722	14,893,712

See accompanying notes to condensed consolidated financial statements.



ORIENT PAPER, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010  
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Net income	\$4,852,924	\$3,126,094
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,084,944	944,260
Loss from disposal of property, plant and equipment	68,561	-
Allowance for bad debts	24,398	17,498
Stock-based expense for service received	30,369	42,532
Changes in operating assets and liabilities:		
Accounts and notes receivable	(910,294 )	(874,908 )
Prepayments and other current assets	(4,619 )	141,210
Inventories	1,993,995	(1,506,228)
Accounts payable	384,203	645,811
Accrued payroll and employee benefits	704	(9,975 )
Other payables and accrued liabilities	(545,567 )	(10,060 )
Income taxes payable	1,611,172	1,138,968
<b>Net Cash Provided by Operating Activities</b>	<b>8,590,790</b>	<b>3,655,202</b>
<b>Cash Flows from Investing Activities:</b>		
Prepayment/deposit for purchase of property, plant and equipment	-	(5,561,651)
Purchases of property, plant and equipment	(5,843,476 )	(4,291 )
Proceeds from disposal of property, plant and equipment	736	-
<b>Net Cash Used in Investing Activities</b>	<b>(5,842,740 )</b>	<b>(5,565,942)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from related party loans	-	200,000
Proceeds from bank loans	1,494,825	-
Repayments of bank loans	(3,988,223 )	(715,216 )
Reclassification of restricted cash to cash and cash equivalents	-	29,105
<b>Net Cash Used in Financing Activities</b>	<b>(2,493,398 )</b>	<b>(486,111 )</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	75,234	1,112
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>329,886</b>	<b>(2,395,739)</b>
Cash and Cash Equivalents - Beginning of Period	11,348,108	6,949,953
Cash and Cash Equivalents - End of Period	\$11,677,994	\$4,554,214



Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$187,538	\$83,796
Cash paid for income taxes	\$259,845	\$-

See accompanying notes to condensed consolidated financial statements.

ORIENT PAPER, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) Organization and Business Background

Orient Paper, Inc. (“Orient Paper” or “the Company”) was incorporated under the laws of the State of Nevada on December 9, 2005, under the name of Carlatel, Inc. Carlatel, Inc. started its business by providing financing services specializing in subprime title loans, secured primarily using automobiles (and also boats, recreational vehicles, machinery, and other equipment) as collateral.

Hebei Baoding Orient Paper Milling Company Limited (“HBOP”) was set up on March 10, 1996, under the laws of the People’s Republic of China (“PRC”). HBOP engages mainly in the production and distribution of paper products such as corrugating medium paper, offset paper and writing paper. HBOP also has capability to produce other paper and packaging-related products, such as plastic paper and craft paper. HBOP uses recycled paper as its primary raw material.

Dongfang Zhiye Holding Limited (“Dongfang Holding”) was formed on November 13, 2006, under the laws of the British Virgin Islands, and is an investment holding company. As such, Dongfang Holding does not generate any financial or operating transactions. On July 16, 2007, Dongfang Holding entered into an agreement to acquire the equity ownership of HBOP and placed all the equity interest in trust with Mr. Zhenyong Liu, Mr. Xiaodong Liu, and Mr. Shuangxi Zhao (the original equity owners of HBOP), pursuant to a trust agreement executed as of the same date. Under the terms of the trust agreement, the original equity owners of HBOP would exercise control over the disposition of Dongfang Holding’s shares in HBOP on Dongfang Holding’s behalf until Dongfang Holding successfully completed the change in registration of HBOP’s capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of HBOP’s equity interest. In connection with the consummation of the restructuring transactions on June 24, 2009 as described below, Dongfang Holding directed its trustee to return its equity ownership in HBOP to their original equity owners.

On October 29, 2007, Orient Paper entered into an Agreement and Plan of Merger (“Merger Agreement”) with (i) Orient Paper wholly owned subsidiary, CARZ Merger Sub, Inc., (ii) Dongfang Holding, and (iii) all shareholders of Dongfang Holding (Zhenyong Liu, Xiaodong Liu, Chen Li, Ning Liu, Jie Liu, Shenzhen Huayin Guaranty & Investment Company Limited, Top Good International Limited, Total Giant Group Limited, Total Shine Group Limited, Victory High Investment Limited, Think Big Trading Limited, Huge Step Enterprises Limited, and Sure Believe Enterprise Limited).

Pursuant to the Merger Agreement, Dongfang Holding merged with CARZ Merger Sub, Inc. via a share exchange, with Dongfang Holding as the surviving entity. In exchange for their shares in Dongfang Holding, the Dongfang Holding shareholders received an aggregate of 7,450,497 newly-issued shares of Orient Paper’s common stock, \$0.001 par value, which were distributed pro rata among the Dongfang Holding shareholders in accordance with their respective ownership interests in Dongfang Holding.

As a result of the merger transaction, Dongfang Holding became a wholly-owned subsidiary of Orient Paper, which, in turn, has the controlling right on the PRC operating company, HBOP, pursuant to the terms of the trust agreement. HBOP, the entity through which the Company operates its business currently has no subsidiaries, either wholly or partially owned.

Prior to the completion of the reverse merger, Orient Paper only had limited operations (since its incorporation on December 9, 2005). On December 21, 2007, the name of the Company was changed from Carlatel, Inc. to Orient

Paper, Inc. in order to better reflect the current business plan subsequent to the reverse merger. Accordingly, the reverse merge has been recorded as a recapitalisation of Orient Paper.

To ensure proper compliance of the Company's control over the ownership and operations of HBOP with certain PRC regulations, on June 24, 2009, the Company entered into a series of contractual agreements (the "Contractual Agreements") with HBOP and the original equity owners of HBOP via the Company's wholly owned subsidiary Shengde Holdings, Inc. ("Shengde Holdings") a Nevada corporation and Baoding Shengde Paper Co., Ltd. ("Baoding Shengde"), a wholly foreign-owned enterprise in the PRC with an original registered capital of \$10,000,000 (subsequently increased to \$60,000,000 in June 2010). Baoding Shengde is mainly engaged in production and distribution of digital photo paper and is 100% owned by Shengde Holdings. Prior to February 10, 2010, the Contractual Agreements included (i) Exclusive Technical Service and Business Consulting Agreement, which generally provides that Baoding Shengde shall provide exclusive technical, business and management consulting services to HBOP, in exchange for service fees including a fee equivalent to 80% of HBOP's total annual net profits; (ii) Loan Agreement, which provides that Baoding Shengde will make a loan in the aggregate principal amount of \$10,000,000 to the original equity owners of HBOP in exchange for each such shareholder agreeing to contribute all of its proceeds from the loan to the registered capital of HBOP; (iii) Call Option Agreement, which generally provides, among other things, that the original equity owners of HBOP irrevocably grant to Baoding Shengde an option to purchase all or part of each owner's equity interest in HBOP. The exercise price for the options shall be RMB1 for each of the owners' equity interests; (iv) Share Pledge Agreement, which provides that the original equity owners of HBOP will pledge all of their equity interests in HBOP to Baoding Shengde as security for their obligations under the other agreements described in this section. Specifically, Baoding Shengde is entitled to dispose of the pledged equity interests in the event that the original equity owners of HBOP breach their obligations under the loan agreement or HBOP fails to pay the service fees to Baoding Shengde pursuant to the Exclusive Technical Service and Business Consulting Agreement; and (v) Proxy Agreement, which provides that the original equity owners of HBOP shall irrevocably entrust a designee of Baoding Shengde with such shareholder's voting rights and the right to represent such shareholder to exercise such owner's rights at any shareholder's meeting of HBOP or with respect to any shareholder action to be taken in accordance with the laws and HBOP's Articles of Association. The terms of the agreement are binding on the parties for as long as the original equity owners of HBOP continue to hold any equity interest in HBOP. HBOP shareholder will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Baoding Shengde. As the Company had controlled HBOP since July 16, 2007 through Dongfang Holding and the trust until June 24, 2009, and continues to control HBOP through Baoding Shengde and the Contractual Agreements, the execution of the Contractual Agreements is considered as a business combination under common control.

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(Unaudited)

On February 10, 2010, Baoding Shengde and HBOP's original equity owners entered into a Termination of Loan Agreement to terminate the above \$10,000,000 Loan Agreement. Because of Company's decision to fund future business expansions through Baoding Shengde instead of HBOP, the \$10,000,000 loan contemplated was never made prior to the point of termination. The parties believe the termination of the loan agreement does not in itself compromise the effective control of the Company over HBOP and its businesses in the PRC.

An agreement was also entered into among Baoding Shengde, HBOP and HBOP shareholders on December 31, 2010, reiterating that Baoding Shengde is entitled to 100% of the distributable profit of HBOP, pursuant to the above mentioned contractual agreements. In addition, HBOP and its equity shareholders shall not declare any of HBOP's unappropriated earnings as dividend, including the unappropriated earnings of HBOP from its establishment to 2010 and thereafter.

Orient Paper has no direct equity interest on HBOP. However, through the contractual agreements described above Orient Paper is found to be the primary beneficiary of HBOP and is deemed to have the effective control over HBOP's activities that most significantly affect its economic performance, resulting in HBOP being treated as a controlled variable interest entity of Orient Paper in accordance with Topic 810- Consolidation of the Accounting Standards Codification (the "ASC") issued by the Financial Accounting Standard Board (the "FASB") (formerly FASB Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities as amended by SFAS 167, an Amendment to FIN 46R). The revenue of the Company generated from HBOP for the quarter ended March 31, 2011 and 2010 were 93.5% and 98.7%, respectively. HBOP also accounted for 82.1% and 79.6% of the total assets of the Company as of March 31, 2011 and December 31, 2010, respectively.

As of March 31, 2011 and December 31, 2010, details of the Company's subsidiaries and variable interest entities are as follows:

Name	Date of Incorporation or Establishment	Place of Incorporation or Establishment	Percentage of Ownership or Control	Principal Activity
<b>Subsidiary:</b>				
Dongfang Holding	November 13, 2006	BVI	100%	Inactive investment holding
Shengde Holdings	February 25, 2009	State of Nevada	100%	Investment holding
Baoding Shengde	June 1, 2009	PRC	100%	Paper Production and distribution
<b>Variable interest entity:</b>				
HBOP	March 10, 1996	PRC	Control*	Paper Production and distribution

\*: HBOP is treated as a 100% controlled variable interest entity of the Company

ORIENT PAPER, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(2) Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim condensed consolidated financial information.

In the opinion of the management of the Company, all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the operating results for the three months ended March 31, 2011 have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual audited financial statements for the year ended December 31, 2010. The Company follows the same accounting policies in preparation of interim reports.

(3) Inventories

Raw materials inventory includes mainly recycled paper and coal. Finished goods include mainly products of offset printing paper and corrugating medium paper. Inventories consisted of the following as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
<b>Raw Materials</b>		
Recycled paper board	\$ 2,891,033	\$ 3,807,678
Pulp	13,263	13,180
Recycled printed paper	352,427	593,604
Recycled white scrap paper	1,233,491	801,783
Coal	198,178	1,441,082
Base paper and other raw materials	153,726	151,269
	4,842,118	6,808,596
<b>Finished Goods</b>	627,658	613,922
<b>Totals</b>	\$ 5,469,776	\$ 7,422,518

(4) Prepayment and other current assets

Prepayment and other current assets consisted of the following:

	March 31, 2011	December 31, 2010
Prepayment for purchase of materials	162,011	158,848
Prepaid insurance	-	19,000
Others	28,348	6,875
	\$ 190,359	\$ 184,723

(5) Prepayment on property, plant and equipment

As of March 31, 2011 and December 31, 2010, prepayment on property, plant and equipment consisted of \$7,001,416 and \$6,957,258, respectively, in respect of prepaid land use right.

ORIENT PAPER, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## (6) Property, plant and equipment

As of March 31, 2011 and December 31, 2010, property, plant and equipment consisted of the following:

	March 31, 2011	December 31, 2010
<b>Property, Plant, and Equipment:</b>		
Land use rights	\$ 2,280,665	\$ 2,266,282
Building and improvements	10,081,587	7,283,466
Machinery and equipment	65,911,440	64,913,451
Vehicles	225,486	224,063
Construction in progress	35,063,317	32,316,540
	113,562,495	107,003,802
Less accumulated depreciation and amortization	(20,755,926)	(19,557,842)
<b>Property, Plant and Equipment, net</b>	<b>\$ 92,806,569</b>	<b>\$ 87,445,960</b>

Land use rights represent state-owned land located in China with lease terms of 50 years expiring in 2053.

Construction in progress mainly represents payments for the new 5600 corrugating paper production line under construction.

No Property, plant and equipment are pledged as of March 31, 2011, but property, plant and equipment with net values of \$4,928,033 have been pledged for short-term bank loans of HBOP as of December 31, 2010. Depreciation and amortization of property, plant and equipment was \$1,084,944 and \$944,260 during the three months ended March 31, 2011 and 2010, respectively.

## (7) Loans Payable

## Short-term bank loans

		March 31, 2011	December 31, 2010
Industrial & Commercial Bank of China	(a)	\$ -	\$ 1,966,182
Industrial & Commercial Bank of China	(b)	913,228	907,468
<b>Total short-term bank loans</b>		<b>\$ 913,228</b>	<b>\$ 2,873,650</b>

(a) During year 2009 and up to May 2010, Industrial & Commercial Bank of China provided two loans, which are secured by certain manufacturing equipment of the Company. The Company paid off one of the loans in May 2010. The remaining loan balance was in the amount of \$1,966,182 as of December 31, 2010. The interest was payable monthly at the fixed rate of 5.841% per annum for the remaining loan, which was due and paid off at maturity on January 11, 2011.

(b) On July 28, 2010, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of

\$913,228 as of March 31, 2011 and of \$907,468 as of December 31, 2010. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires at July 19, 2011 and carries an interest rate at 5.31% per annum.

As of March 31, 2011 and December 31, 2010, short-term borrowings were comprised of secured bank loans of \$913,228 and \$2,873,650, respectively, and no unsecured bank loans. The factoring facility was secured by certain accounts receivable in the amount of \$1,109,424 and \$1,064,187 as of March 31, 2011 and December 31, 2010, respectively, while the secured loans were secured by the Company's manufacturing equipment of \$4,928,033 as of December 31, 2010.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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As of March 31, 2011 and December 31, 2010, the Company has no other credit facility with the banks. The average short-term borrowing rates for the three months ended March 31, 2011 and 2010 were approximately 5.42% and 5.85%, respectively.

Long-term loan from credit union

As of December 31, 2010, loan payable to Rural Credit Cooperative of Xushui County, amounted to \$2,008,530. The loan is guaranteed by an unrelated third party company. The entire principal is due and payable at maturity on September 16, 2011 and thus the entire principal amount was reclassified as current portion of long-term loan and recorded under current liabilities as of December 31, 2010. Interest is paid monthly at the rate of 0.774% per month.

On March 31, 2011 the Company prepaid the entire principal and accrued interest of the Rural Cooperative of Xushui County loan and entered into a new term loan agreement with the Xushui County Rural Credit Union for \$1,499,216. The new loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.72% per month.

Total interest expenses for the short-term bank loans and long-term credit union loan for the three months ended March 31, 2011 and 2010 were \$67,686 and \$83,796, respectively.

(8) Related Party Transactions

Mr. Zhenyong Liu is the director, principal stockholder and chief executive officer of the Company. He loaned money to HBOP for working capital purposes over a period of time. As of March 31, 2011 and December 31, 2010, net amount due to Mr. Liu were \$2,223,089 and \$2,209,068, respectively.

The loan of Mr. Liu is interest bearing and the interest rate is equal to the rate established by the People's Bank of China, which was 5.85% and 5.85% per annum as of March 31, 2011 and December 31, 2010. The term is for 3 years and starts from January 1, 2010.

On August 1 and August 5, 2008, two members of the Board of Directors of HBOP loaned money to the Company for working capital purposes. The amounts owed bear interest equals the rate established by the People's bank of China and are due on July 31 and August 4, 2011, respectively. As of March 31, 2011 and December 31, 2010, the total loan amount payable is \$2,054,763 and \$2,041,804, respectively. The interest rate as of March 31, 2011 and December 31, 2010 was 5.85% and 5.85% per annum, respectively.

The interest expenses incurred for above related party loans are \$62,380 and \$79,521 for the three months ended March 31, 2011 and 2010.

On February 5, 2010, the Company borrowed \$200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on April 14, 2010.

(9) Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

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	March 31, 2011	December 31, 2010
Accrued electricity	\$ 204,051	\$ 573,294
Accrued audit and professional fees	370,000	290,000
Value-added tax payable	735,422	884,779
Accrued interest	192,614	248,676
Payable for purchase of equipment	340,786	236,698
Others	89,156	130,239
Totals	\$ 1,932,029	\$ 2,363,686

ORIENT PAPER, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(10) Common Stock

Issuance of warrants

In July, 2009, the Company entered into an agreement with CCG Investor Relations Partners LLC (“CCG”), who provides service related to investor relationship activities for the Company for one year. In consideration for CCG’s service and a cash payment of \$7,000 per month, at the same date, the Company issued a warrant to CCG to purchase 25,000 shares of the Company’s common stock at the price of \$4.00 per share. The warrant is exercisable for two years after grant and has a “cashless” exercise provision and a piggyback registration right. The value of the warrant issued for the service should be measured at the service completion date according to ASC Topic 505-50 (formerly EITF 96-18). Throughout the period of the contracted services, the fair value of the warrants was estimated using the Black-Scholes option pricing model.

The fair value for the warrant was approximately \$200,158 as a whole and the unamortized balance as at March 31, 2011 and 2010 is nil and \$42,532, respectively. It has been amortized over the servicing period of 1 year since July 24, 2009. For the three months ended March 31, 2011 and 2010, the company charged nil and \$42,532 to earnings, respectively, and the remaining cost of the warrant issued was recorded as prepaid expenses under current assets as at March 31, 2010. As of January 19, 2010, the warrant has been cashless exercised for 16,597 shares. As of March 31, 2011, there is no outstanding warrant.

Make Good Securities Escrow Agreement

On October 7, 2009, the Company entered into a Securities Purchase Agreement with Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the “Buyers”) to sell to the Buyers 2,083,333 shares of the Company’s common stock for an aggregate purchase price of \$5,000,000 (the “Private Placement”). The Private Placement was closed on October 7, 2009. In connection with the Private Placement, the Company entered into a Make Good Securities Escrow Agreement with the Buyers of the Private Placement and Mr. Liu, the Company’s Chief Executive Officer and a major shareholder. As an inducement for the Buyers to enter and consummate the Private Placement, Mr. Liu agreed to place 750,000 shares of common stock (the “Escrow Shares”) into escrow for the benefit of the Buyers in the event the Company fails to achieve the following financial performance thresholds for the 12-month periods ended December 31, 2009 (“2009”) and December 31, 2010 (“2010”):

The 2009 Performance Threshold shall equal or exceed the Company’s 2009 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain loss or expense) of \$10,000,000 and the 2010 Performance Threshold shall equal or exceed the Company’s 2010 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain loss or expense) of \$18,000,000. Pursuant to the agreement, no 2009 or 2010 escrow shares should be transferred to any Buyer in the event the Company fails to achieve the 2009 or 2010 Performance Threshold by less than 10%. The number of escrow shares to be transferred to Buyer shall be equivalent to the percentage by which the Company missed the 2009 or 2010 Performance Threshold. For example, if the Company were to miss the 2009 Performance Threshold by 15%, 112,500 shares of common stock should be transferred to the Buyers.

During the period that the shares are held under escrow (the “Period”), Mr. Liu, as the original shareholder of the escrow shares retains all rights of ownership, including voting rights and the right to receive any dividends that may be

declared during the Period.

The Company has achieved the financial performance threshold for 2009. For 2010, the Company's net income determined in accordance with the US GAAP for the year 12-month period ended December 31, 2010 was \$15,551,536, which failed the 2010 Performance Threshold of \$18 million by more than 10%. However, the Buyers and the Company have agreed to reduce the 102,019 Escrow Shares that are otherwise transferable to the Buyers by 50% to 51,010 Escrow Shares pursuant to a carve-out term under Article 1.6 (vii) of the Make Good Securities Escrow Agreement for items that are "whatsoever beyond the Company's reasonable control," including part of the \$1,041,452 of 2010 legal and professional fees related to (1) the internal independent investigation conducted by the Company's Audit Committee during 2010 in response to certain allegations against the Company and its financial positions and operations, and (2) defending the shareholder class action lawsuit filed on August 6, 2010 (see Pending Litigation in Note (13) Commitments and Contingencies, below). The delivery of the transferable escrowed shares has no effect on the Company's financial statements.

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April 2010 Public Offering

On March 31, 2010, the Company entered into an Underwriting Agreement with Roth Capital Partners, LLC (the “Underwriter”), under which the Company agreed to sell the Underwriter an aggregate of 3,000,000 shares of common stock with an option for the Underwriter to purchase an additional 450,000 shares to cover its over-allotment within 45 days of the date of the Underwriting Agreement. All of these shares, which are offered to the public at \$8.25 per share by the Underwriter, are issued and sold to the Underwriter at \$7.7962 per share net of discounts and commissions. The first closing for the sale of 3,000,000 shares was closed on April 6, 2010. The Underwriter exercised its option for the purchase of the additional 450,000 shares on April 14, 2010. The Company received total proceeds, net of expenses, in the amount of \$26,570,161.

(11) Earnings Per Share

For the three months ended March 31, 2011 and 2010, basic and diluted net income per share are calculated as follows:

	Three Months Ended March 31,	
	2011	2010
Basic income per share		
Net Income for the period – numerator	\$ 4,852,924	\$ 3,126,094
Weighted average common stock outstanding – denominator	18,346,722	14,889,545
Net income per share	\$ 0.26	\$ 0.21
Diluted income per share		
Net Income for the period – numerator	\$ 4,852,924	\$ 3,126,094
Weighted average common stock outstanding	18,346,722	14,889,545
Effect of dilution		
Warrant	-	4,167
Weighted average common stock outstanding - denominator	18,346,722	14,893,712
Diluted income per share	\$ 0.26	\$ 0.21

(12) Income Taxes

United States

Orient Paper and Shengde Holdings are incorporated in the State of Nevada and are subject to the U.S. federal tax and state statutory tax rates up to 34% and 0%, respectively.

PRC

HBOP and Baoding Shengde are PRC operating companies and are subject to PRC Enterprise Income Tax. Pursuant to the PRC New Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.



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The provision for income taxes for the three months ended March 31, 2011 and 2010 was as follows:

	Three Months Ended March 31,	
	2011	2010
Provision for Income Taxes		
Current Tax Provision – PRC	\$ 1,871,017	\$ 1,138,968
Deferred Tax Provision	-	-
Total Provision for Income Taxes	\$ 1,871,017	\$ 1,138,968

During the three months ended March 31, 2011 and 2010, the effective income tax rate was estimated by the Company to be 27.8% and 26.7%, respectively. The Company has adopted ASC Topic 740-10-05, Income Taxes (former FIN 48, Accounting for Uncertainty in Income Taxes). To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of March 31, 2011 and December 31, 2010, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the three months ended March 31, 2011 and 2010, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

### (13) Commitments and Contingencies

#### Operating Lease

Orient Paper leases 32.95 acres of land from a local government through a real estate lease with a 30-year term, which expires on December 31, 2031. The lease requires an annual rental payment of approximately \$18,265. This operating lease is renewable at the end of the 30-year term.

Future minimum lease payments are as follows:

March 31,	Amount
2012	\$ 18,265
2013	18,265
2014	18,265
2015	18,265
2016	18,265
Thereafter	287,665
Total operating lease payments	\$ 378,990

### Capital commitment

The Company has signed several contracts for constructing plants and purchase of equipment. The outstanding commitments are \$2,119,907 and \$7,628,331 as of March 31, 2011 and December 31, 2010, respectively. The Company expects to pay off all the balances by the end of 2011.

### Pending Litigation

On August 20, 2010, the Company was served notice of a stockholder class action lawsuit filed on August 6, 2010 in the U.S. District Court for the Central District of California against the Company, certain current and former officers and directors of the Company, and Roth Capital Partners, LLP. The complaint in the lawsuit, Mark Henning v. Orient Paper et al., CV-10-5887 RSWL (AJWx), alleges, among other claims, that the Company issued materially false and misleading statements and omitted to state material facts that rendered its affirmative statements misleading as they related to the Company's financial performance, business prospects, and financial condition, and that the defendants failed to prevent such statements from being issued or corrected. The complaint seeks, among other relief, compensatory damages and plaintiff's counsel's fees and experts' fees. Mr. Henning purports to sue on his own behalf and on behalf of a class consisting of the Company's stockholders (other than the defendants and their affiliates). One group of three shareholders with a total alleged loss of approximately \$150,000 has filed a motion to be appointed as lead plaintiff and has been so appointed by the court. The Company and the defendant officers and directors have retained the law firm DLA Piper US LLP to represent them in connection with the lawsuit. The Company believes that the lawsuit has no merit and intends to mount a vigorous defense. The plaintiffs filed an amended complaint on January 28, 2011, and the Company filed a motion to dismiss with the court on March 14, 2011. The plaintiffs subsequently filed their opposition to the Company's motion to dismiss on April 28, 2011. Nevertheless, at this stage of the proceedings, management cannot opine that a favorable outcome for the company is probable or that an unfavorable outcome to the company is remote. While certain legal defense costs may be later reimbursed by the Company's insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of date of this statement.



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On April 1, 2011 the Company was served a summon for a complaint filed by Tribank Capital Investments, Inc. (“Tribank”) on March 30, 2011 in the Superior Court of the State of California for the County of Los Angeles against the Company and its Chairman and CEO Mr. Zhenyong Liu (the Tribank Matter). By filing the complaint, Tribank alleges, among other claims, that the Company breached the Non-Circumvention Agreement dated October 29, 2008 between the Company and Tribank (the “Agreement”), and that the Company was unjustly enriched as a result of breaching the Agreement. The complaint seeks, among other relief, compensatory damages and plaintiff’s counsel’s fees. On April 29, 2011 the Company filed a Notice of Removal to remove the jurisdiction of the case from the state court of California to the Federal District Court for the District of Central California and filed a motion to dismiss the lawsuit on May 6, 2011. The Company believes that the complaint has no merit and intends to vigorously defend the lawsuit. While certain legal defense costs may be later reimbursed by the Company’s insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of date of this statement.

(14) Segment Reporting

Since March 10, 2010, Baoding Shengde started its operations and thereafter the Company manages its operations through two business operating segments: HBOP, which produces printing paper and corrugating medium paper, and Baoding Shengde, which produces digital photo paper. They are managed separately because each business requires different technology and marketing strategies.

The Company evaluates performance of its operating segments based on net income. Administrative functions such as finance, treasury, and information systems are centralized. However, where applicable, portions of the administrative function expenses are allocated between the operating segments based on gross revenue generated. The operating segments do share facilities in Xushui County, Baoding City, Hebei, China. All sales were sold to customers located in the PRC.

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Summary financial information for the two reportable segments, is as follows:

	Three Months Ended March 31, 2011				
	HBOP	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 31,067,920	\$ 2,157, 299	-		\$ 33,225,219
Gross Profit	6,979,613	792,095	-		7,771,708
Depreciation and amortization	860,536	224,408	-		1,084,944
Interest income	2,668	8,435	43		11,146
Interest expense	130,066	-	-		130,066
Income tax expense	1,678,309	192,708			1,871,017
Net Income (Loss)	4,864,842	586,558	(598,476)		4,852,924
Total Assets	98,668,946	33,704,284	342,579	(12,519,791)	120,196,018

	Three Months Ended March 31, 2010				
	HBOP	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 26,108,982	\$ 349,206	-		\$ 26,458,188
Gross Profit	4,610,130	230,399	-		4,840,529
Depreciation and amortization	872,427	71,833	-		944,260
Interest income	26,809	337	42		27,188
Interest expense	163,317	-	-		163,317
Net Income (Loss)	3,230,834	168,654	(273,394)		3,126,094
Total Assets	71,541,010	14,346,285	257,522	(10,087,676)	76,057,141

(15) Concentration of Major Suppliers

For the three months ended March 31, 2011, the Company had two major suppliers which primarily accounted for 59% and 15% of total purchases. For the three months ended March 31, 2010, the Company had three major suppliers accounted for 59%, 21% and 15% of total purchases.

(16) Concentration of Credit Risk

Financial instruments for which the Company is potentially subject to concentration of credit risk consist principally of cash. The Company places its temporary cash investments in reputable financial institutions in the PRC and the United States. Although it is generally understood that the PRC central government stands behind all of the banks in

China in the event of bank failure, there is no deposit insurance system in China that is similar to the protection provided by the Federal Deposit Insurance Corporation (FDIC) of the United States. The Company's U.S. bank accounts are all covered by the FDIC insurance but carried a balance exceeding the maximum coverage of \$250,000 by \$65,079 and nil as of March 31, 2011 and 2010, respectively.

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(17) Risks and Uncertainties

Orient Paper is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, foreign currency exchange rates, and operating in the PRC under its various laws and restrictions.

(18) Recent Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, "Receivables – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU 2010-20). ASU 2010-20 amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide new disclosures about its financing receivables and related allowance for credit losses. These provisions are effective for interim and annual reporting periods ending on or after December 15, 2010. In January 2011, ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20" was issued to temporarily delay the effective date of the disclosures about troubled debt restructurings for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. Accordingly, ASU 2010-20 are changed to be effective for interim and annual periods ending after June 15, 2011. Management assessed that ASU 2010-20 concerns disclosures only and will not have a material impact on our financial position or results of operations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Cautionary Notice Regarding Forward-Looking Statements

The following discussion of the financial condition and results of operation of the Company for the periods ended March 31, 2011 and 2010 should be read in conjunction with the selected financial data, the financial statements, and the notes to those statements that are included elsewhere in this Quarterly Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties.

In this quarterly report, references to "Orient Paper," "ONP," "the Company," "we," "our," "us," and the Company's various interest entity, "HBOP," refer to Orient Paper, Inc.

We make certain forward-looking statements in this report. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings), demand for our services, and other statements of our plans, beliefs, or expectations, including the statements contained under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," as well as captions elsewhere in this document, are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "could," "may," "should," "will," "would," and similar expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. You are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the SEC should be considered in evaluating forward-looking statements.

In evaluating these forward-looking statements, you should consider various factors, including the following: (a) those risks and uncertainties related to general economic conditions, (b) whether we are able to manage our planned growth efficiently and operate profitable operations, (c) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations, (d) whether we are able to successfully fulfill our primary requirements for cash. We assume no obligation to update forward-looking statements, except as otherwise required under the applicable federal securities laws.

### Results of Operations

For simplicity of the following analysis, when referring to "offset printing paper," we include any sales revenue and cost of sales of high-grade offset printing paper, writing paper, white card paper, Diazo paper and copy paper into the category of offset printing paper.

### Revenue of Offset Printing Paper and Corrugating Medium Paper

Revenue from sales of offset printing paper and corrugating medium paper for the three months ended March 31, 2011 was \$31,067,919, an increase of \$4,958,937 or 18.99% from \$26,108,982 for the comparable period in

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2010. Nevertheless, total paper sold during the three months ended March 31, 2011 amounted to 50,843 tons, a decrease of 4,126 tons or 7.51%, compared to 54,969 tons sold in the comparable period in the previous year. The changes in revenue dollar amount and in tonnage from the first quarter of year 2010 to the same period in year 2011 are summarized as follows:

Sales Revenue	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010		Change in		Percentage Change	
	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount
Corrugating medium Paper	22,152	\$ 8,522,771	31,291	\$ 9,521,079	(9,139)	\$ (998,308)	(29.21)%	(10.49)%
Medium-Grade Offset Printing Paper	28,691	22,545,148	23,660	16,571,857	5,031	5,973,291	21.26%	36.04%
Diazo Paper and Copy Paper	-	-	18	16,046	(18)	(16,046)	n/a	n/a
Total Corrugating Medium and Printing Paper Sales Revenue	50,843	\$ 31,067,919	54,969	\$ 26,108,982	(4,126)	\$ 4,958,937	(7.51)%	18.99%

Revenue from corrugating medium paper amounted to \$8,522,771 (or 27.43% of total offset printing paper and corrugating medium paper revenue) for the three months ended March 31, 2011, representing a \$998,308 (or 10.49%) decrease over the corrugating medium paper revenue of \$9,521,079 for the comparable period in 2010. We sold 22,152 tons of corrugating medium paper in the three months ended March 31, 2011 versus 31,291 tons for the same period sold a year ago, representing a 29.21% drop in quantities sold, due to the disposal of one of our corrugating medium paper production lines in late June 2010. Despite the decrease in sales quantity, Average Selling Price (“ASP”) for corrugating medium paper rose from \$304/ton in the three months ended March 31, 2010 to \$385/ton in the three months ended March 31, 2011, representing a 26.64% increase over the comparable period. We believe the increase in ASP is primarily attributable to (1) increasing customer demands, (2) the overall increased market price caused by relatively high wood pulp prices in the first half of year 2010, and most importantly (3) a regional shortage in paper products supply, caused by mandatory closures of other smaller paper manufacturers under government mandates. For example, the provincial government of Hebei announced on June 12, 2010 that it was working on closing 64 inefficient paper production lines with 26 local paper mills by the end of the year, accounting for an elimination of annual capacity of approximately 400,000 tons in 2010, while the neighboring province of Henan announced that it was closing more than 100 local paper mills with an aggregate capacity of over 2,000,000 tons of paper production. Absent further government-mandated capacity closure and substantial industry-wide pricing adjustments to reflect inflating costs, we believe the ASP of major paper products may stabilize in the next quarter in fiscal year 2011.

Beginning in late June 2010, we shut down and later demolished one of our two corrugating medium paper production lines. We had originally planned to build a new 360,000 ton/year new corrugating medium paper production line and other facilities on some 667,000 square meters of land across the street from our current main manufacturing compound, but due to certain changes in the plan, we decided to instead build the new production line in our current manufacturing compound. To make room for the new production line and related pulping facilities, we tore down two existing buildings and an existing corrugating medium paper production line. We estimate the lost capacity could be approximately 34,000 tons per year. The new corrugating medium paper production line is expected to begin production in the second quarter of 2011.

Revenue from medium-grade offset printing paper amounted to \$22,545,148 (or 72.57% of total offset printing paper and corrugating medium paper revenue) for the three months ended March 31, 2011, which represents a \$5,973,291 (or 36.04%) increase over the medium-grade offset printing paper revenue of \$16,571,857 for the comparable period in 2010. We sold 28,691 tons of medium-grade offset printing paper in the first quarter of year 2011 compared to 23,660 tons of medium-grade offset printing paper in the comparable period in year 2010, an increase of 5,031 tons or 21.26%. We believe that the factors contributing to the year 2011 first quarter increase in both total quantity and dollar amount sold include (1) ASP for offset printing paper products increased from \$700/ton in the first quarter of year 2010 to \$786/ton in first quarter of 2011, representing an increase of 12.29%, (2) a regional shortage in paper products supply, caused by mandatory closures of other smaller paper manufacturers under government mandates, and (3) additional revenue from the sales of offset printing paper finished goods purchased from other paper manufacturers in first quarter of 2011.

As a partial remedy for the lost production due to the above disposal and the temporary removal of two old boilers in 2010, starting in August 2010 the Company entered into four offset printing paper supply agreements and one corrugating medium paper supply agreement with paper manufacturers in Hebei Province and the neighboring Shandong province (the “Supply Agreements”). As of March 31, 2011 we still have four Supply Agreements (all for offset printing paper products) in effect until June 30, 2011. During the three months ended March 31, 2011, revenue generated from sales of offset printing paper finished goods purchased from these vendors pursuant to the Supply Agreements was in the amount of \$6,580,121 (or 8,390 tons), representing 29.19% of sales revenue of medium grade offset printing paper during the three months ended March 31, 2011. Although gross profit margin of sales of paper purchased under these Supply Agreements registers significantly less than that of our own products (see discussions at

“Gross Profit” below), we intend to extend these Supply Agreements past their expiration as long as market condition permits.



The following is a chart showing the month-by-month ASPs (except for the ASPs of the digital photo paper) for the period of 24 months ended March 31, 2011:

Monthly sales revenue, including revenue from the sales of purchased paper finished goods and excluding revenue of digital photo paper, for the period of 15 months ended March 31, 2011, are summarized below:

# Revenue of Digital Photo Paper

Since March 2010, we have started producing and selling digital photo paper. Revenue generated from selling digital photo paper was \$2,157,300 (or 6.49% of total revenue) for the three months ended March 31, 2011:

Sales Revenue	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010		Change in		Percentage Change	
	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount
Digital Photo Paper	527.167	\$ 2,157,300	22.154	\$ 349,206	505.013	\$ 1,808,094	2,279.56%	517.77%

During the second quarter of year 2010, the Company made a decision to significantly lower the ASP across the board for all digital photo paper products to make the pricing of our digital photo paper products more competitive. We currently produce glossy and semi-matte photo papers in various weights (from 120g/m2 to 260g/m2). As a result of the aggressive pricing in different product structure, which lowered the ASP from \$12,365/ton in April 2010 to \$4,132/ton in March 2011, monthly sales quantity increased from 29 tons and 39 tons in the months of April and May of 2010 to 205 tons in March 2011.

Digital photo paper products' monthly ASPs, monthly sales quantity (in tons) and monthly sales revenue for the period from inception to March 31, 2011 are summarized as follows:

## Cost of Sales

Total cost of sales (excluding cost of sales of digital photo paper, which was not produced and sold until March 2010) for the three months ended March 31, 2011 was \$24,088,307, an increase of \$2,589,455 or 12.04% from \$21,498,852 for the comparable period in 2010. The increase in total cost of sales in the first quarter of year 2011 is primarily due to the net increased sales revenue during the period relative to the revenue in 2010. As explained above, total sales revenue (excluding revenue from sales of digital photo paper) grew from \$26,108,982 in the first quarter of 2010 to \$31,067,919 in the comparable period in year 2011, representing an 18.99% year-over-year increase. Cost of sales of corrugating medium and offset printing paper per unit became higher in the three months ended March 31, 2011 than the same period in year 2010 because of (1) the higher unit cost (and therefore, lower sales mark-up) for the sales of finished goods products purchased from other paper manufacturers under the Supply Agreements, and (2) the inflated market costs of recycled paper raw materials in 2011 as opposed to year 2010; offset by the relatively stable energy cost in the first quarter of year 2011 as opposed to the same period in 2010.

Monthly average purchase costs of our major raw materials for the period of April 2009 through March 2011 are as follows:

Except for the purchase cost of recycled paper board, which market price fluctuates depending on various economic factors, costs for the other types of raw materials in the two-year period ended March 31, 2011 were on an upward trend and reached the highest point over the period toward the end of March 2011. For example, our average unit purchase cost (net of applicable Value Added Tax) of recycled paper board, recycled white scrap paper, and recycled printed paper in the month of March 2011 were \$188/ton, \$409/ton, and \$290/ton, respectively, which represent year-over-year increase of 15.71%, 14.96%, and 40.39% as compared to what we paid per unit for these raw materials a year ago. Although our production takes advantage entirely of domestic recycled paper (produced mainly from the Beijing metropolitan area) and do not have to rely on imported recycled paper, which tends to have a more volatile pricing behavior than the domestic recycled paper, it appears that demands for domestic paper are on the rise. Because of the rising demand and the effect of inflation on various production factors of recycled paper, we estimate that all of the raw material prices may see moderate increases in the next few periods.

Electricity and coal are the two main sources of energy for our paper manufacturing activities. Coal prices have been subject to seasonal fluctuations in China, with peaks often occurring in the winter months. Historically, electricity and coal account for approximately 11% and 10% of our total cost of sales, or approximately 9% and 8% of total sales, respectively. The monthly energy costs (electricity and coal) as a percentage of total monthly cost of sales (excluding the cost of sales purchased from other paper product suppliers and not manufactured by us, as well as the cost of sales of digital photo paper) of our main paper products for the two years ended March 31, 2011 are summarized as follows:

Total energy (electricity and coal) cost accounted for 19.85% of the total cost of sales (excluding costs of sales of purchased finished goods and digital photo paper) in the three months ended March 31, 2011, compared to 27.88% of total cost of sales in the first quarter of year 2010.

The total cost of sales of digital photo paper amounted to \$1,365,204 for the three months ended March 31, 2011, representing an increase of 1,049.09% over the comparable period in year 2010.

#### Gross Profit

Gross profit for corrugating medium paper and offset printing paper for the three months ended March 31, 2011 was \$6,979,612, a net increase of \$2,369,483 or 51.40% from \$4,610,130 for the comparable period in 2010. The net increase in gross profit was primarily attributable to various factors affecting the production activities and sales revenue in the first quarter of the year 2011, including (1) the 26.64% and 12.29% rise in corrugating medium and offset printing paper product ASPs, (2) a larger amount of gross profit contributed by the new digital photo paper products, and (3) lower unit cost paid for electricity and coal in the 2011 period as compared to year 2010. These favorable impacts were nevertheless partially offset by higher purchase cost for the recycled paper raw materials in the first quarter of 2011 as opposed to year 2010. The overall gross profit margin for corrugating medium paper and offset printing paper for the three months ended March 31, 2011 increased by 4.81%, from 17.66% a year ago to 22.47%. Gross profit margins for the purchased finished good of offset printing paper during the three months ended March 31, 2011 was 5.97% and was substantially lower than the gross profit margin of offset printing paper that was manufactured internally. Overall annual gross profit margins for corrugating medium paper and offset printing paper (including those contributed by sales of purchased finished goods) for the three months ended March 31, 2011 were 31.02% and 19.23%, respectively.

Gross profit from the sales of digital photo paper for the three months ended March 31, 2011 amounted to \$792,095, or 36.72% as a percentage to total digital photo paper sales. Gross profit margin of digital photo paper for the first month of operations in March 2010 was 65.98%, albeit on a minimal production quantity.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2011 were \$860,286, an increase of \$420,948 or 95.81% from \$439,338 for the comparable period in 2010. The increase was primarily attributable to payments of various professional service fees including, more specifically, legal and accounting fees incurred in connection with the independent investigation into certain allegations against the Company during the second half of year 2010. For the three months ended March 31, 2011, total expenses incurred or accrued for legal and accounting fees amounted to \$465,798, as opposed to \$47,565 during the comparable period in 2010.

## Income from Operations

Operating income for the three months ended March 31, 2011 was \$6,842,861, an increase of \$2,441,670 or 55.48% from \$4,401,191 for the comparable period in 2010. The increase was primarily attributable to the increase in sales and gross profit of our corrugating medium paper and medium-grade offset printing paper products as explained above, as well as the additional operating income in the amount of \$771,867 from the digital photo paper operations for the three months ended March 2010.

## Net Income

Net income was \$4,852,924 for the three months ended March 31, 2011, an increase of \$1,726,830 or 55.24% from \$3,126,094 for the comparable period in 2010. The increase was primarily attributable to the increased sales revenue and gross profit and accretive net income from the digital photo paper operations, offset by the increased legal and accounting expenses.

## Accounts Receivable

Accounts receivable and trade notes receivable increased by \$902,130 (or 42.00%) to \$3,049,904 as of March 31, 2011, compared with \$2,147,774 (including notes receivable in the amount of \$308,539) as of December 31, 2010. Our year-end balance was lower than normal quarter-end balance because of an more aggressive collection effects toward the end of the calendar year, a common practice followed by many Chinese businesses. The March 31, 2011 balance also represents an increase of \$135,314, or 4.64% over the March 31, 2010 balance in the amount of \$2,914,590. We usually collect accounts receivable within 30 days of delivery and completion of sales.

## Inventory

Inventory consists of raw materials (accounting for 88.52% of total value of ending inventory as of March 31, 2011) and finished goods. As of March 31, 2011, the recorded value of our inventory has decreased 26.31% to \$5,469,776 from \$7,422,518 as of December 31, 2010. Despite anticipation of rising raw material prices in the next periods, we lowered the level of certain raw material on-hand inventory as of March 31, 2011 in order to conserve cash to pay for capital expenditures in the second quarter of 2011. A summary of changes in major inventory items is as follows:

	March 31, 2011	December 31, 2010	\$ Change	% Change
<b>Raw Materials</b>				
Recycled paper board	\$ 2,891,033	\$ 3,807,678	\$ (916,645 )	(24.07)%
<b>Pulp</b>	13,263	13,180	83	0.63%
Recycled printed paper	352,427	593,604	(241,177 )	(40.63)%
Recycled white scrap paper	1,233,491	801,783	431,708	53.84%

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Coal	198,178	1,441,082	(1,242,904)	(86.25)%
Digital photo base paper and other raw materials	153,726	151,269	2,457	1.62%
Total Raw Materials	4,842,118	6,808,596	(1,966,478 )	(28.88)%
Finished Goods	627,658	613,922	13,736	2.24%
Totals	\$ 5,469,776	\$ 7,422,518	\$ (1,952,742)	(26.31)%

## Accounts Payable

Accounts payable (excluding non-inventory purchase payables and accrued expenses) was \$ 801,424 as of March 31, 2011, an increase of \$387,956 or 93.83% from \$413,468 as of December 31, 2010. Our year-end balance was substantially lower than normal quarter-end balance because of an more aggressive collection effort by our vendors toward the end of the calendar year, a common practice followed by many Chinese businesses.

## Liquidity and Capital Resources

### Overview

We had net working capital of \$11,003,187 at March 31, 2011, an increase of \$1,655,261 over a net working capital of \$9,347,926 at December 31, 2010.

The Company finances its daily operations mainly by cash flows generated from its business operations and loans from banking institutions and major shareholders. Major capital expenditures in the first quarter of year 2011 and 2010 were primarily financed by cash flows generated from business operations. As of March 31, 2011 we had approximately \$2,300,000 in capital expenditure commitments that were related to the construction of a new corrugating medium paper production line and will be satisfied by payment of cash within the next 12 months. In addition to the binding contracts that we have entered into, we have capital expenditure plans with estimated cost of up to \$9 million in the second and third quarters of year 2011, including the installation of pulping facility improvements and a new power substation that work with the new corrugating medium paper production line, as well as new warehouse spaces. We also intend to complete the acquisition of some 667,000 square meters of land within the next 12 months. The land acquisition is expected to consume an additional \$14,500,000 in cash to pay for the financial compensation to current land owners and for the land use rights to the government. We expect to finance the above capital expenditures and land acquisition with the net working capital of \$11,003,187, the net cash inflows generated from the rest of the year 2011 business operations, and if necessary, new loans from local Chinese banks. We do not have any firm commitment from the local banks with respect to new credit facilities in addition to the current bank borrowings, which aggregated to approximately \$2,412,444 as of March 31, 2011. However, based on the present loan to equity ratio (which is less than 13% as of March 31, 2011), we do not believe the Company will have any problem securing additional bank loans as needed, unless the macroeconomic condition in China changes (e.g. government policies to tighten bank credit facilities as a tool to control inflation).

The Company currently does not have any specific plan for new equity financing in the next 12 months.

### Cash and Cash Equivalents

Our cash and cash equivalents as of March 31, 2011 was \$11,677,994, an increase of \$329,886 from \$11,348,108 as of December 31, 2010. The increase over the three-month period ended March 31, 2011 was primarily attributable to a number of factors, including the following:

- i. Net cash provided by operating activities

Net cash provided by operating activities was \$8,590,790 for the three months ended March 31, 2011, representing an increase of \$4,935,588 or 135.03% from \$3,655,202 for the comparable period in 2010. The net income for the three months ended March 31, 2011 in the amount of \$4,852,924 represented an increase of \$1,726,830 or 55.24% from \$3,126,094 for the comparable period in 2010. In addition to the increase in net income, there are certain non-cash charges (including depreciation in the amount of \$1,084,944) that reduced the net income but did not have the effect of reducing the balance of cash and cash equivalents. Net cash flow from operating activities was also increased due



to a decreased inventory balance (and an increase in operating cash flow) of \$1,993,995, an increase in accounts payable (and an increase in operating cash flow) of \$384,203, as well as increases in the estimated income tax liability (and also in operating cash flow) in the first quarter of year 2011 in the amount of \$1,611,172.

ii. Net cash used in investing activities

The Company incurred \$5,843,476 in cash expenditures for investing activities in the first quarter of 2011, mainly for purchases of new equipment and progress payments for the construction of a new corrugating medium paper production line and ancillary facilities. The total contract price for the new corrugating medium paper production equipment, which will have an annual capacity of 360,000 tons, is \$29,695,134 and represents an unpaid purchase commitment in the next twelve months in the amount of \$1,080,653. In addition, cost of contracts that we entered into to build other ancillary facilities for the new corrugating medium paper production line amounted to \$12,227,744, of which \$953,867 was unpaid as of March 31, 2011. Such ancillary facilities included a new pulping station and water treatment plant. Total unpaid capital expenditure commitment as of March 31, 2011 was in the amount of \$2,119,907, which we expect to pay for with current cash and cash equivalent balance of approximately \$11.7 million or cash flows from operating activities in the next twelve months.

The Company made a land acquisition deposit payment in June 2010 in the amount of \$11,494,601 to the local residents council, which is in charge of the reimbursement and relocation of the residents who occupied the parcel of subject land that is a vital part of any future expansion of our facilities. As of September 30, 2010, 56 families of local residents on the subject land have contracted to surrender their land use rights (representing roughly 85% of the total land to be acquired) and have been reimbursed. The land acquisition process will continue throughout the rest of the year for us to obtain the title through the local government. Unsatisfied with the slow progress of the acquisition, we demanded partial returns of the deposit from the local resident village council in December 2010 and received two refunds in total amount of \$4,537,341. In addition to the remaining deposit, to complete the land acquisition we estimate that the entire land acquisition process will require an additional \$14,500,000 (based on an estimated total average cost of approximately \$31.78 per square meter) of cash payment in the next six to twelve months, which is expected to be paid for by future cash flows generated by our operating activities. If, however, the relocation and financial restoration phase continue to stall for more than six months, we may demand the full refund of whatever deposit already made from the local resident village council.

### iii. Net cash used in financing activities

Net cash used in financing activities was \$2,493,398 during the three months ended March 31, 2011, as compared to \$486,111 for the comparable period in 2010. During the three months ended March 31, 2011, the company paid off the principal balance of the RMB 13,000,000 (approximately \$1,966,182 at December 31, 2010) short-term loan from the Industrial & Commercial Bank of China on the renewal date of January 11, 2011. The Company also refinanced the RMB 13,280,000 (\$2,008,530 at December 31, 2010) long-term loan from the Rural Credit Cooperative of Xushui County for a new three-year term loan in the amount of \$1,499,216 on March 31, 2011.

### Short term loans and current portion of long-term bank debt

#### Short-term bank loans

		March 31, 2011	December 31, 2010
Industrial & Commercial Bank of China	(a)	\$ -	\$ 1,966,182
Industrial & Commercial Bank of China	(b)	913,228	907,468
<b>Total short-term bank loans</b>		<b>\$ 913,228</b>	<b>\$ 2,873,650</b>

(a) During the year 2009 and up to May 2010, the Industrial & Commercial Bank of China provided two loans, which are secured by certain manufacturing equipment of the Company. The Company paid off one of the two loans in May 2010. The remaining loan balance was in the amount of \$1,966,182 as of December 31, 2010. The interest was payable monthly at the fixed rate of 5.841% per annum for the remaining loan as of December 31, 2010. The principal of the remaining loan was due and paid off at maturity on January 11, 2011.

(b) On July 28, 2010, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of \$913,228 as of March 31, 2011. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires on July 19, 2011 and carries an interest rate at 5.31% per annum.

As of March 31, 2011 and December 31, 2010, short-term borrowings were comprised of secured bank loans of \$913,228 and \$2,873,650, respectively, and no unsecured bank loans. The factoring facility was secured by certain accounts receivable amounted to \$1,109,424 and \$1,064,187 as of March 31, 2011 and December 31, 2010, respectively. In addition to this, as of December 31, 2010 other secured loans were secured by the Company's manufacturing equipment of \$4,928,033. There is no other secured loan as of March 31, 2011.

As of March 31, 2011 and December 31, 2010, the Company has no credit facility with the banks. The average short-term borrowing rates for the three months ended March 31, 2011 and 2010 were approximately 5.42% and 5.85%, respectively.

#### Shareholder loans

Mr. Zhenyong Liu is the director, principal stockholder and chief executive officer of the Company. He loaned money to HBOP for working capital purposes over a period of time. As of March 31, 2011 and December 31, 2010, the net amount due to Mr. Liu was \$2,223,089 and \$2,209,068, respectively.

The loan of Mr. Liu is interest bearing and the interest rate is equal to the rate established by the People's Bank of China, which was 5.85% and 5.85% per annum as of March 31, 2011 and December 31, 2010. The term is for 3 years and starts from January 1, 2010.

On August 1 and August 5, 2008, two members of the Board of Directors of HBOP loaned money to the Company for working capital purposes. The amounts owed bear interest equal to the rate established by the People's bank of China and are due on July 31 and August 4, 2011, respectively. As of March 31, 2011 and December 31, 2010, the total loan amount payable was \$2,054,763 and \$2,041,804, respectively. The interest rate as of March 31, 2011 and December 31, 2010 was 5.85% and 5.85% per annum, respectively.

The interest expenses incurred for the above related party loans are \$62,380 and \$79,521 for the three months ended March 31, 2011 and 2010.

#### Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates. The most critical accounting policies are listed below:

##### Revenue Recognition Policy

The Company recognizes revenue when goods are delivered when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when the customer's truck picks up goods at our finished goods inventory warehouse.

##### Long-Lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining useful lives when events or circumstances lead management to believe that the carrying value of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Our judgments regarding the existence of impairment indicators are based on market conditions, assumptions for operational performance of our businesses, and possible government policy toward operating efficiency of the Chinese paper manufacturing industry. For the three months ended March 31, 2011 and 2010, no events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required. We are currently not aware of any events or circumstances that may indicate any need to record such impairment in the future.

## Foreign Currency Translation

The functional currency of HBOP and Baoding Shengde is the Chinese Yuan Renminbi (“RMB”). Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of March 31, 2011 and December 31, 2010 to translate the Chinese RMB to the U.S. Dollars are 6.5701:1 and 6.61180:1, respectively. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective years at 6.5894:1, and 6.83603:1 for the three months ended March 31, 2011 and 2010, respectively. Translation adjustments are included in other comprehensive income (loss).

## Contractual Obligations and Off-Balance Sheet Arrangements

## Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments as of March 31, 2011. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our financial position, results of operations, and cash flows.

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Debt Obligations	\$ 2,412,444	\$ 913,228	\$ 1,499,216	\$ —	\$ —
Equipment and Construction Costs					
Commitment	2,119,907	2,119,907	—	—	—
Operating Lease Obligations	378,990	18,265	36,530	36,530	287,665
Total	\$ 4,911,341	\$ 3,051,400	\$ 1,535,746	\$ 36,530	\$ 287,665

## Make Good Securities Escrow Agreement

On October 7, 2009, the Company entered into a Securities Purchase Agreement with Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the “Buyers”) to sell to the Buyers 2,083,333 (post reverse split) shares of the Company’s common stock for an aggregate purchase price of \$5,000,000 (the “Private Placement”). The Private Placement was closed on October 7, 2009.

In connection with the Private Placement and on October 7, 2009, the Company entered into a Make Good Securities Escrow Agreement with the Buyers and Mr. Zhenyong Liu, the Company’s Chief Executive Officer and a major shareholder. As an inducement for the Buyers to enter and consummate the Private Placement, Mr. Liu agreed to place 750,000 (post reverse split) shares of common stock (the “Escrow Shares”) into escrow for the benefit of the Buyers in the event the Company fails to achieve the following financial performance thresholds for the 12-month periods ended December 31, 2009 (“2009”) and December 31, 2010 (“2010”):

- (a) If Net Income for 2009 shall be at least ten per cent (10%) less than the 2009 Performance Threshold, then (x) the 2009 Escrow Shares (defined below) shall be distributed on a pro rata basis to the Buyers based on the number of shares of

common stock purchased by each Buyer pursuant to the Securities Purchase Agreement, and (y) within five (5) business days after March 31, 2010, the Company shall order the escrow agent to issue and deliver the 2009 Escrow Shares to each Buyer on a pro rata basis. "2009 Escrow Shares" shall be the number of Escrow Shares equivalent to the percentage by which the Company missed the 2009 Performance Threshold. For example, if the Company were to miss the 2009 Performance Threshold by 15%, the 2009 Escrow Shares shall comprise 112,500 (post reverse split) shares of common stock.

- (b) If Net Income for 2010 shall be at least ten per cent (10%) less than the 2010 Performance Threshold, then (x) the 2010 Escrow Shares (defined below) shall be distributed on a pro rata basis to the Buyers based on the number of shares of common stock purchased by each Buyer pursuant to the Securities Purchase Agreement, and (y) within five (5) business days after March 31, 2011, the Company shall order the escrow agent to issue and deliver the 2010 Escrow Shares to each Buyer on a pro rata basis. "2010 Escrow Shares" shall be the number of Escrow Shares equivalent to the percentage by which the Company missed the 2010 Performance Threshold. For example, if the Company were to miss the 2010 Performance Threshold by 25%, the 2010 Escrow Shares shall comprise 187,500 (post reverse split) shares of Common Stock.

The 2009 Performance Threshold shall equal or exceed the Company's 2009 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain losses or expenses) of \$10,000,000 and the 2010 Performance Threshold shall equal or exceed the Company's 2010 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain loss or expense) of \$18,000,000.

As of December 31, 2009, the Company achieved the financial performance threshold for 2009. The Company's net income determined in accordance with the US GAAP for the year ended December 31, 2010 was \$15,551,536, which fails the 2010 Performance Threshold of \$18 million by more than 10%. However, the Buyers and the Company have agreed to reduce the 102,019 Escrow Shares that are otherwise transferable to the Buyers by 50% to 51,010 Escrow Shares pursuant to a carve-out under Article 1.6 (vii) of the Make Good Securities Escrow Agreement for items that are "whatsoever beyond the Company's reasonable control," including part of the \$1,041,452 of 2010 legal and accounting fees related to (1) the internal independent investigation conducted by the Company's Audit Committee during 2010 in response to certain allegations against the Company and its financial positions and operations, and (2) defending the shareholder class action lawsuit filed on August 6, 2010.

#### Registration Rights Agreement

In connection with the Private Placement and on October 7, 2009, the Company entered into a Registration Rights Agreement with the Buyers. Pursuant to the Registration Rights Agreement, the Company agreed to file with the SEC a registration statement on Form S-1 covering the resale of all of the 2,083,333 (post reverse split) shares of common stock sold to the Buyers within 90 days of the closing of the Private Placement.

The Company shall use its commercially reasonable efforts to have the registration statement declared effective by the SEC as soon as practicable, but in no event later than the earlier of (i) 180 days after the closing (ii) 5 business days after the Company learns that no review of the registration statement will be made by the staff of the SEC or that the staff of the SEC has no further comments on the registration statement provided that in the event that the Company is unable to register for resale under Rule 415 all of the Buyers' shares of common stock due to limits imposed by the SEC's interpretation of Rule 415, then the Company shall be obligated to include in such registration statement only such limited portion of shares as the SEC shall permit. The Company is obligated to file one or more subsequent registration statements to register the rest of the shares until all the Buyers' shares of common stock are registered, pursuant to the provisions of the Registration Rights Agreement; provided that the Company's obligation to file subsequent registration statements shall cease on the first anniversary of the closing date of the Financing. Each Buyer's shares shall be registered in the subsequent registrations on a pro rata basis.

If a registration statement is (A) not filed with the SEC on or before the respective filing deadline (a "Filing Failure") or (B) not declared effective by the SEC as aforesaid, (an "Effectiveness Failure") or (ii) on any day after the respective dates of effectiveness sales of all the shares included on such registration statement cannot be made because of a



failure to keep such registration statement effective, to disclose such information as is necessary for sales to be made pursuant to such registration statement, to register a sufficient number of shares of common stock or to maintain the listing of the common stock (a "Maintenance Failure") then, as partial relief for the damages to any holder by reason of any such delay in or reduction of its ability to sell the underlying shares of common stock (A) the Company shall pay to each holder of shares relating to such registration statement an amount in cash equal to two percent (2.0%) of the aggregate Purchase Price (as such term is defined in the Securities Purchase Agreement) of such Buyer's shares included in such Registration Statement on each of the following dates: (i) the day of a Filing Failure; (ii) the day of an Effectiveness Failure; and (iii) the initial day of a Maintenance Failure; and (B) the Company shall pay to each holder of shares relating to such Registration Statement an amount in cash equal to one percent (1.0%) of the aggregate Purchase Price of such Buyer's shares included in such Registration Statement on each of the following dates: (i) on the thirtieth day after the date of a Filing Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Filing Failure is cured; (ii) on the thirtieth day after the date of an Effectiveness Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Effectiveness Failure is cured; and (iii) on the thirtieth day after the date of a Maintenance Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Maintenance Failure is cured. Defaults in the said payments shall bear interest at the rate of one and one-half percent (1.5%) per month (prorated for partial months) until paid in full.

As of January 6, 2010, the Company has been in breach of certain obligations under the October 7, 2009 Registration Rights Agreement and was subject to the liquidated damages provisions under the same agreement. Under the Registration Rights Agreement, which was entered into by the Company and the Buyers of the October 7, 2009 private placement, the Company is obligated to file a registration statement to register the Buyers' shares within 90 days of October 7, 2009. Nevertheless, the Company had decided to postpone the registration of the Buyers' shares until after the closing of the next financing transaction. On March 15, 2010, the Company and the Buyers entered into a Waiver Agreement for the Buyers to waive their registration rights and the liquidated damages under the Registration Rights Agreement.

#### Off Balance Sheet Arrangements

None.

#### Recent Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, "Receivables – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU 2010-20). ASU 2010-20 amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide new disclosures about its financing receivables and related allowance for credit losses. These provisions are effective for interim and annual reporting periods ending on or after December 15, 2010. In January 2011, ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20" is issued to temporarily delay the effective date of the disclosures about troubled debt restructurings for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. Accordingly, ASU 2010-20 are changed to be effective for interim and annual periods ending after June 15, 2011. Management assessed that ASU 2010-20 concerns disclosures only and will not have a material impact on our financial position or results of operations.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

#### Item 4. Controls and Procedures.

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including Zhenyong Liu, the Company's Chief Executive Officer ("CEO"), and Winston C. Yen, the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the three months ended March 31, 2011.

Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

#### Changes in internal controls

Our management, with the participation of our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the quarter ended March 31, 2011. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II – OTHER INFORMATION

### Item 1.

#### Legal Proceedings.

On August 20, 2010, the Company was served notice of a stockholder class action lawsuit filed on August 6, 2010 in the U.S. District Court for the Central District of California against the Company, certain current and former officers and directors of the Company, and Roth Capital Partners, LLP. The complaint in the lawsuit, *Mark Henning v. Orient Paper et al.*, CV-10-5887 RSWL (AJWx), alleges, among other claims, that the Company issued materially false and misleading statements and omitted to state material facts that rendered its affirmative statements misleading as they related to the Company's financial performance, business prospects, and financial condition, and that the defendants failed to prevent such statements from being issued or corrected. The complaint seeks, among other relief, compensatory damages and plaintiff's counsel's fees and experts' fees. Mr. Henning purports to sue on his own behalf and on behalf of a class consisting of the Company's stockholders (other than the defendants and their affiliates). One group of three shareholders, including Mr. Henning, with a total alleged loss of approximately \$150,000 has filed a motion to be appointed as lead plaintiff and has been so appointed by the court. The Company and the defendant officers and directors have retained the law firm DLA Piper US LLP to represent them in connection with the lawsuit. The Company believes that the lawsuit has no merit and intends to mount a vigorous defense. The plaintiffs filed an amended complaint on January 28, 2011, and the Company filed a motion to dismiss with the court on March 14, 2011. The plaintiffs subsequently filed their opposition to the Company's motion to dismiss on April 28, 2011. Nevertheless, at this stage of the proceedings, management cannot opine that a favorable outcome for the company is probable or that an unfavorable outcome to the company is remote. While certain legal defense costs may be later reimbursed by the Company's insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of the date of this statement.

On April 1, 2011 the Company was served a summon for a complaint filed by Tribank Capital Investments, Inc. ("Tribank") on March 30, 2011 in the Superior Court of the State of California for the County of Los Angeles against the Company and its Chairman and CEO Mr. Zhenyong Liu (the Tribank Matter). By filing the complaint, Tribank alleges, among other claims, that the Company breached the Non-Circumvention Agreement dated October 29, 2008 between the Company and Tribank (the "Agreement"), and that the Company was unjustly enriched as a result of breaching the Agreement. The complaint seeks, among other relief, compensatory damages and plaintiff's counsel's fees. On April 29, 2011 the Company filed a Notice of Removal to remove the jurisdiction of the case from the state court of California to the Federal District Court for the District of Central California and filed a motion to dismiss the lawsuit on May 6, 2011. The Company believes that the complaint has no merit and intends to vigorously defend the lawsuit. While certain legal defense costs may be later reimbursed by the Company's insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of the date of this statement.

### Item 1A.

#### Risk Factors.

##### Risks Relating to our Business

In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.

We do not have direct or indirect equity ownership of HBOP which operates our main business in China. At the same time, however, we have entered into contractual arrangements with HBOP and its individual owners pursuant to which we received an economic interest in, and exert a controlling influence over HBOP, in a manner substantially

similar to a controlling equity interest.

Although we believe the restructuring transaction and our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC regulations that may be adopted in the future. If we are determined not to be in compliance, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

We rely on contractual arrangements with HBOP for our operations, which may not be as effective in providing control over these entities as direct ownership.

Our operations and financial results are dependent on HBOP in which we have no equity ownership interest and must rely on contractual arrangements to control and operate the businesses of HBOP. These contractual arrangements are not as effective in providing control over HBOP as direct ownership. For example, HBOP may be unwilling or unable to perform their contractual obligations under our commercial agreements, including payment of consulting fees under the Exclusive Technical Service and Business Consulting Agreement as they become due. Consequently, we will not be able to conduct our operations in the manner currently planned. In addition, HBOP may seek to renew their agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control HBOP, we may not succeed in enforcing our rights under them insofar as our contractual rights and legal remedies under Chinese law are inadequate. In addition, if we are unable to renew these agreements on favorable terms when these agreements expire, or to enter into similar agreements with other parties, our business may not be able to operate or expand, and our operating expenses may significantly increase.

The shareholders of HBOP may have potential conflicts of interests with us, which may adversely affect our business.

We operate our businesses in China through HBOP. Our chairman, CEO and 27.89% shareholder, Zhenyong Liu owns 93.26% of the equity interest in HBOP. Conflicts of interests between his duties to us and to HBOP may arise. We cannot assure you that when conflicts of interest arise, he will act in the best interests of our company or that any conflict of interest will be resolved in our favor. These conflicts may result in management decisions that could negatively affect our operations and potentially result in the loss of opportunities.

Our arrangements with HBOP and its shareholders may be subject to a transfer pricing adjustment by the PRC tax authorities which could have an adverse effect on our income and expenses.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contracts with HBOP and its shareholders were not entered into based on arm's length negotiations. Although our contractual arrangements are similar to other companies conducting similar operations in China, if the PRC tax authorities determine that these contracts were not entered into on an arm's length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. Such an adjustment may require that we pay additional PRC taxes plus applicable penalties and interest, if any.

The exercise of our option to purchase part or all of the equity interests in HBOP under the Call Option Agreement might be subject to approval by the PRC government. Our failure to obtain this approval may impair our ability to substantially control HBOP and could result in actions by HBOP that conflict with our interests.

Our Call Option Agreement with HBOP and its shareholders gives our Chinese subsidiary, Baoding Shengde or its designated entity or natural person, the option to purchase all or part of the equity interests in HBOP. The option may not be exercised by Baoding Shengde if the exercise would violate any applicable laws and regulations in China or cause any license or permit held by, and necessary for the operation of HBOP, to be cancelled or invalidated. Under the laws of China, if a foreign entity, through a foreign investment company that it invests in, acquires a domestic related company, China's regulations regarding mergers and acquisitions may technically apply to the transaction. If these regulations apply, an examination and approval of the transaction by China's Ministry of Commerce ("MOFCOM"), or its local counterparts would be required. In addition, an appraisal of the equity interest or the assets to be acquired would also be mandatory. Since the scope of business activities (making of digital photo paper and other cultural paper products) as defined in the business license of Baoding Shengde does not involve the MOFCOM approval and monitoring, we do not believe at this time that an approval or an appraisal is required for Baoding Shengde to exercise its option to acquire HBOP. In light of the different views on this issue, however, it is possible that the central MOFCOM office in Beijing will issue a standardized opinion imposing the approval and appraisal requirement. If we are not able to purchase the equity of HBOP, then we will lose a substantial portion of our ability to control HBOP and our ability to ensure that HBOP will act in our interests.

Our operating history may not serve as an adequate basis to judge our future prospects and results of operations.

HBOP commenced its current line of business operations in 1996 and received its initial Pollution Discharge Permit in September 1996, which must be renewed every year for HBOP to stay in business. Although we have never had problem renewing the Pollution Discharge Permit, we cannot guarantee automatic renewal every year. Our operating history may not provide a meaningful basis on which to evaluate its business. We cannot assure you that HBOP will maintain its profitability or that we will not incur net losses in the future. We expect that HBOP's operating expenses will increase as it expands. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- raise adequate capital for expansion and operations;
- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brand name, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses; or

anticipate and adapt to changing conditions in paper markets in which we operate as well as the impact of any changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

HBOP's failure to compete effectively may adversely affect our ability to generate revenue.

Through HBOP, we compete in a highly developed market with companies that have significantly greater experience and history in our industry. If we do not compete effectively, we could lose market share and experience falling prices, adversely affecting our financial results. Our competitors will expand in the key markets and implement new technologies making them more competitive. There is also the possibility that competitors will be able to offer additional products, services, lower prices, or other incentives that we cannot or will not offer or that will make our products less profitable. We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not harm our business.

Baoding Shengde does not have any operating history and has never competed in the digital photo paper market.

We conduct the digital photo paper business through our wholly-owned subsidiary Baoding Shengde, which has never had any experience competing in the Chinese digital photo paper market. Although we reasonably believe that we are able to compete effectively with our high quality digital photo paper products, Baoding Shengde has no industry experience in the past.

If HBOP fails to comply with covenants in its loan agreements, its lenders may allege a breach of a covenant and seek to accelerate the loan or exercise other remedies, which could strain our cash flow and harm our business, liquidity and financial condition.

HBOP received loans from commercial banks to fund its operations. Typically, these loans are made pursuant to customary loan agreements which contain representations and warranties about its business, financial covenants to which HBOP must adhere and other negative covenants in respect of its operations. Under some of these agreements, HBOP may be required to obtain the consent of its lenders prior to entering into its contractual arrangement with us but HBOP did not receive such prior consent. To date, our lenders have not given us any notice of default or otherwise objected to our contractual arrangements with HBOP. We intend to secure a waiver from our lenders in this regard, but cannot assure you that we will successfully do so. If we cannot obtain such a waiver and HBOP's lenders declare it to be in default under the loan agreements, they may accelerate HBOP's indebtedness to them which would negatively affect our cash flows and business operations.

We may not be able to effectively control and manage the growth of HBOP.

If HBOP's business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. An expansion would increase demands on existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations and cause delay in production and delivery of our paper products, as well as administrative inefficiencies.

We, through our subsidiaries, may engage in future acquisitions that could dilute the ownership interests of our stockholders and cause us to incur debt and assume contingent liabilities.

We, through our subsidiaries, may review acquisition and strategic investment prospects that we believe would complement the current product offerings of HBOP, augment its market coverage or enhance its technical capabilities, or otherwise offer growth opportunities. From time to time we review investments in new businesses and we, through our subsidiaries, expect to make investments in, and to acquire, businesses, products, or technologies in the future. We expect that when we raise funds from investors for any of these purposes we will be either the issuer or the primary obligor while the proceeds will be forwarded to HBOP. In the event of any future acquisitions, we could:





- issue equity securities which would dilute current stockholders' percentage ownership;
  - incur substantial debt;
  - assume contingent liabilities; or
  - expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock. Moreover, even if through our subsidiaries, we do obtain benefits in the form of increased sales and earnings, there may be a lag between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which HBOP has no or limited prior experience;
- the potential loss of key employees of acquired organizations; and

substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We cannot ensure that we will be able to successfully integrate any businesses, products, technology, or personnel that we might acquire in the future and our failure to do so could have a material adverse effect on our and/or HBOP's business, operating results and financial condition.

We are responsible for the indemnification of our officers and directors.

Our Articles of Incorporation provides for the indemnification and/or exculpation of our directors, officers, employees, agents and other entities which deal with us to the maximum extent provided, and under the terms provided, by the laws and decisions of the courts of the state of Nevada. Although we do maintain professional error and omission insurance for the officers and directors, due to limitations of the insurance coverage these indemnification provisions could still result in substantial expenditures which we may be unable to recoup through the insurance and could adversely affect our business and financial conditions. Zhenyong Liu, our Chairman of the Board and Chief Executive Officer, Winston C. Yen, our Chief Financial Officer, Dahong Zhou, our Secretary, and Drew Bernstein, Wenbing Christopher Wang, Zhaofang Wang, and Fuzeng Liu, our directors, are key personnel with rights to indemnification under our Articles of Incorporation.

We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success is, to a certain extent, attributable to the management, sales and marketing, and paper factory operational expertise of key personnel. Zhenyong Liu, our Chief Executive Officer and Chairman of the Board, Winston C. Yen,

our Chief Financial Officer, Dahong Zhou, our Secretary, and Zhongmin Ma, HBOP's General Engineer, Gengqi Yang, HBOP's Vice President of Sales and Marketing, Fulai Huang, HBOP's Vice President of Environmental Protection and Xiaodong Liu, Baoding Shengde's General Manager, perform key functions in the operation of our business. There can be no assurance that Orient Paper or HBOP or Baoding Shengde will be able to retain these officers after the term of their employment contracts expire. The loss of these officers could have a material adverse effect upon our business, financial condition, and results of operations. We do not carry key man life insurance for any of our key personnel or personnel nor do we foresee purchasing such insurance to protect against a loss of key personnel and the key personnel.

We are dependent upon the services of Mr. Zhenyong Liu for the continued growth and operation of our company because of his experience in the industry and his personal and business contacts in the PRC. Although Mr. Liu has entered into an employment agreement with Baoding Shengde Paper Co., Ltd., our wholly owned subsidiary and a PRC company, and that we have no reason to believe that Mr. Liu will discontinue his services with us or HBOP, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operations.

We may not be able to hire and retain qualified personnel to support our growth and if we are unable to retain or hire these personnel in the future, our ability to improve our products and implement our business objectives could be adversely affected.

We must attract, recruit and retain a sizeable workforce of technically competent employees. Competition for senior management and senior personnel in the PRC is intense, the pool of qualified candidates in the PRC is very limited, and we may not be able to retain the services of our senior executives or senior personnel, or attract and retain high-quality senior executives or senior personnel in the future. This failure could materially and adversely affect our future growth and financial condition.

Our operating results may fluctuate as a result of factors beyond our control.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are beyond our control. These factors include:

- the costs of paper products and development;
- the relative speed and success with which we can obtain and maintain customers, merchants and vendors for our products;
- capital expenditure for equipment;
- marketing and promotional activities and other costs;
- changes in our pricing policies, suppliers and competitors;
- the ability of our suppliers to provide products in a timely manner to their customers;
- changes in operating expenses;
- increased competition in the paper markets; and
- other general economic and seasonal factors.

We face risks related to product liability claims.

We presently do not maintain product liability insurance. We face the risk of loss because of adverse publicity associated with product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. Although product liability lawsuits in the PRC are rare, and we have not, to date, experienced significant failure of our products, there is no guarantee that we will not face such liability in the future. This liability could be substantial and the occurrence of such loss or liability may have a material adverse effect on our business, financial condition and prospects.



Our operating results also depend on the availability and pricing of energy and raw materials.

In addition to our dependence upon wood pulp, recycled white scrap paper and paperboard costs, our operating results depend on the availability and pricing of energy and other raw materials, including chemical agents and coal. An interruption in the supply of supplemental chemical agents could cause a material disruption at our mill in Baoding. In addition, an interruption in the supply of coal could cause a material disruption at our facilities in Baoding. At present, our raw materials including coal are purchased from a number of suppliers, of which the three largest suppliers account for over 72% of all purchases. If any of these contracts were to be terminated for any reason, or not renewed upon expiration, or if market conditions were to substantially change creating a significant increase in the price of coal and recycled paper, we may not be able to find alternative, comparable suppliers or suppliers capable of providing coal to us on terms or in amounts satisfactory to us. As a result of any of these events, our business, financial condition and operating results could suffer.

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales, and/or negatively affect our net income.

Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- maintenance outages;
  - prolonged power failures;
  - an equipment failure;
- disruption in the supply of raw materials, such as wood fiber, energy, or chemicals;
  - a chemical spill or release;
  - closure because of environmental-related concerns;
  - explosion of a boiler;
- the effect of a drought or reduced rainfall on our water supply;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels;
  - fires, floods, earthquakes, hurricanes, or other catastrophes;
  - terrorism or threats of terrorism;
  - labor difficulties; or
  - other operational problems.

We have purchased property base insurance from Property Insurance and Casualty Company Limited, valid from March 2011 through March 2012. However, if any of the abovementioned events were to occur, we may be unable to meet customer demand, which may adversely affect our sales and net income.



Our certificates, permits, and licenses related to our papermaking operations are subject to governmental control and renewal and failure to obtain renewal will cause all or part of our operations to be terminated.

Due to the nature of the business, we are subject to environmental, health, and safety laws and regulations, including those related to the disposal of hazardous waste from our manufacturing processes. Compliance with existing and future environmental, health and safety laws could subject us to future costs or liabilities; impact our production capabilities; constrict our ability to sell, expand or acquire facilities; and generally impact our financial performance. Under the original factory land lease dated January 2, 2002, HBOP was obligated to return the land to the government to its original condition prior to the expiration of the lease. As such, Orient Paper would have to accrue the cost estimated to return the land to its prior condition over the 30-year life of the lease. However, on March 15, 2010, an amendment to the original January 2, 2002 lease was signed and removed the obligation of HBOP to return the land to its condition prior to the expiration of the lease. The management of the Company thus believes that no liabilities under the lease should be accrued as of December 31, 2010. Nevertheless, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate any sites, which could be identified in the future for cleanup, could be higher than expected.

In 1988, the National Environmental Protection Bureau issued Interim Measures on the Administration of Water Pollutants Discharge Permits, requiring all companies discharging pollution into the water as a direct or indirect byproduct of production to adhere to certain caps on pollution discharge. Additionally, such companies were required to obtain and annually renew a Pollution Discharge Permit in order to conduct their operations. The PRC government has the authority to shut down a company's operations for failure to maintain a valid permit. We renewed our Pollution Discharge Permit on March 12, 2010. Our latest permit is effective from March 12, 2010 through March 11, 2011. An application to renew has been filed with the local environment protection agency and the new license is expected to be issued shortly after March 11, 2011.

If we are unable to make necessary capital investments or respond to pricing pressures, our business may be harmed.

In order to remain competitive, we need to invest in research and development, manufacturing, customer service and support, and marketing. From time to time we also have to adjust the prices of our products to remain competitive. We may not have available sufficient financial or other resources to continue to make investments necessary to maintain our competitive position.

If we fail to introduce enhancements to our existing products or to develop new products, our business and results of operations could be adversely affected.

We believe our future success depends in part on our ability to enhance our existing products and develop new products in order to continue to meet customer demands. Our failure to introduce new or enhanced products on a timely and cost-competitive basis, or the development of processes that make our existing products obsolete, could harm our business and results of operations.

#### Risks Related To Doing Business in the PRC

Changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the middle of the 20th century and is controlled by the Communist Party of China. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic



activities since 1978. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, including the paper industry, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

The PRC's economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government can have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm our business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, HBOP, and its shareholders, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. Our major operating entity, HBOP, conducts its operations in China, and as a result, we are required to comply with PRC laws and regulations. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking HBOP's business and other licenses;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.



Among the material laws that we are subject to are the Price Law of The People's Republic of China, Measurement Law of The People's Republic of China, Tax Law, Environmental Protection Law, Contract Law, Patent Law, Accounting Laws and Labor Law.

Our contractual arrangements with HBOP and its shareholders may not be as effective in providing control over HBOP as direct ownership.

Since the law of the PRC limits foreign equity ownership in companies in China, we operate our business through HBOP. We have no equity ownership interest in HBOP and rely on contractual arrangements to control and operate its business. These contractual arrangements may not be effective in providing control over HBOP as direct ownership. For example, HBOP could fail to take actions required for our business despite its contractual obligation to do so. If HBOP fails to perform under their agreements with us, we may have to incur substantial costs and resources to enforce such arrangements and may have to rely on legal remedies under the law of the PRC, which may not be effective. In addition, we cannot assure you that the HBOP's shareholders would always act in our best interests.

Because we may rely on the consulting services agreement with HBOP for essentially all of our revenue and cash flows, any difficulty for HBOP to pay consulting fees to Baoding Shengde under the consulting agreement may have a material adverse effect on our operations.

We are a holding company and currently do not conduct any business operations other than the contractual arrangements between Baoding Shengde and HBOP. As a result, we may rely entirely for our revenues on dividend payments from Baoding Shengde for any payment from HBOP pursuant to the consulting services agreement which forms a part of the contractual arrangements between Baoding Shengde and HBOP. Since Baoding Shengde is not a legal shareholder of HBOP under PRC statutes, the arrangement for HBOP to pay a substantial portion of its net income to Baoding Shengde may be challenged by the PRC government, which could prevent us from issuing dividends to our shareholders or making required payments to some of our service providers.

A slowdown, inflation or other adverse developments in the PRC economy may harm our customers and the demand for our services and products.

All of our operations are conducted in the PRC and all of our revenue is generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that this growth will continue. A slowdown in overall economic growth, an economic downturn, a recession or other adverse economic developments in the PRC could significantly reduce the demand for our products and harm our business.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may harm our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth. In January 2010, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly five months. Repeated rises in interest rates by the central bank would likely slow economic activity in the PRC which could, in turn, materially increase our costs and also reduce demand for our products.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit

sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also in the future restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

The fluctuation of the Renminbi may harm your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the Financial Management website [fms.treas.gov/intn.html](http://fms.treas.gov/intn.html), as of December 31, 2010, \$1 = 6.6700 Yuan (RMB). As we rely entirely on revenues earned in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for HBOP's operations, appreciation of the Renminbi against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm our business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the Renminbi. Thus if we raise 1,000,000 dollars and the Renminbi appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB5,669,500 as opposed to RMB 6,670,000 prior to the appreciation. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus if HBOP has RMB1,000,000 in assets and Renminbi is depreciated against the U.S. dollar by 15%, then the assets will be valued at \$130,370 as opposed to \$149,925 prior to the depreciation.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 19.44% appreciation of the Renminbi against the U.S. dollar as of December 31, 2010. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may materially adversely affect us.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Round-Trip Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75. The policy announced in this notice required PRC residents to register with the relevant SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in May 2007 (known as Notice 106), expanded the reach of Circular 75. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006; this date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's affiliates being impeded or prevented from distributing their profits and

the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

Because of uncertainty over the interpretation of Circular 75, we cannot assure you that, if challenged by government agencies, the structure of our organization has fully complied with all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. A failure by such PRC resident beneficial holders or future PRC resident stockholders to comply with Circular 75 and Notice 106, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

The PRC's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in the PRC. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in the PRC lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the PRC judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. However, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. A change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, may affect the PRC government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the foreign invested enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to foreign invested enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC's accounting laws require that an annual "statutory audit" be performed in accordance with PRC accounting standards and that the books of account of foreign invested enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, foreign invested enterprises and wholly foreign-owned enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of foreign invested enterprises.





Any recurrence of Severe Acute Respiratory Syndrome, or SARS, or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem (such as bird flu) in the PRC, where all of our revenues are derived, could significantly harm our operations. Our operations may be impacted by a number of health-related factors, including quarantines or closures of any of our two locations in the city of Baoding that would adversely disrupt our operations. Any of the foregoing events or other unforeseen consequences of public health problems could significantly harm our operations.

Because our principal assets are located outside of the United States and most of our directors and officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. federal securities laws against us and our officers or to enforce U.S. court judgment against us or them in the PRC.

Most of our directors and officers reside outside of the United States. In addition, our operating company is located in the PRC and substantially all of our assets are located outside of the United States. It may therefore be difficult for investors in the United States to enforce their legal rights based on the civil liability provisions of the U.S. Federal securities laws against us in the courts of either the U.S. or the PRC and, even if civil judgments are obtained in U.S. courts, to enforce such judgments in PRC courts. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties, under the U.S. Federal securities laws or otherwise.

The relative lack of public company experience of our management team may put us at a competitive disadvantage.

Our management team lacks public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by Sarbanes-Oxley Act of 2002. The individuals who now constitute our senior management have never had responsibility for managing a publicly traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may not be able to implement programs and policies in an effective and timely manner that adequately responds to such increased legal, regulatory compliance and reporting requirements. Our failure to comply with all applicable requirements could lead to the imposition of fines and penalties and distract our management from attending to the growth of our business.

We may be required to broaden the coverage of the mandatory social security insurance programs under the New Labor Law of the PRC

The PRC New Labor Law, effective January 1, 2008, requires that employers enroll in the following social security insurance programs and offer certain employer-sponsored premium benefits to eligible employees: (1) retirement endowment, (2) healthcare insurance, (3) unemployment insurance, (4) workers' compensation insurance, and (5) pregnancy insurance. Of these insurance programs, the retirement endowment fund requires employee withholdings of 4% to 8% of the gross compensation, while the employer's matching contribution varies from 16% to 20% of such compensation. While the Company is enrolled in the retirement endowment fund and is withholding employees' portion and the employer's portion of the endowment contribution, many of the Company's employees have elected to waive their coverage under these mandatory social security insurance programs in favor of certain other low-cost, local government-sponsored social security insurance programs for residents in non-urban districts. Although we have verified with the local government agencies for the validity of the employee waivers and reasonably believe that we are not required to cover the employees who waived the benefits, the local government may change its policy and ask us to broaden our insurance coverage to those who have specifically waived their rights.



## Risks Related to Our Common Stock

Our officers and directors control us through their positions and stock ownership and their interests may differ from other stockholders.

As of December 31, 2010, there were 18,344,811 shares of our common stock issued and outstanding. Our officers and directors beneficially own approximately 27.98% of our common stock. Mr. Zhenyong Liu, our Chief Executive Officer, beneficially owns approximately 27.89% of our common stock. As a result, he is able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. Yet Mr. Liu's interests may differ from those of other stockholders. Furthermore, ownership of 27.98% of our common stock by our officers and directors reduces the public float and liquidity, and may affect the market price, of our common stock as traded on the NYSE Amex.

We are not likely to pay cash dividends in the foreseeable future.

We intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate. Should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

If we fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of U.S. public companies' internal control over financial reporting, and attestation of this assessment by their independent registered public accountants. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. While there has not been any detected significant deficiency or material weakness in our internal control and with respect to the assessment of the internal control for the year ended December 31, 2010, we cannot guarantee the implementation of controls and procedures in future years to be without any significant deficiency or material weakness.

Our common stock may be affected by limited trading volume and may fluctuate significantly.

Our common stock is traded on the NYSE Amex. Although an active trading market has developed for our common stock, there can be no assurance that an active trading market for our common stock will be sustained. Failure to maintain an active trading market for our common stock may adversely affect our shareholders' ability to sell our common stock in short time periods, or at all. Our common stock has experienced, and may experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock.

Future financings may dilute stockholders or impair our financial condition.

In the future, we may need to raise additional funds through public or private financing, which might include the sale of equity securities. The issuance of equity securities could result in financial and voting dilution to our existing stockholders. The issuance of debt could result in effective subordination of stockholders' interests to the debt, create the possibility of default, and limit our financial and business alternatives.



Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

None.

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Item 3. Defaults Upon Senior Securities.

To our knowledge, there are no material defaults upon senior securities.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6.Exhibits.

(a)

Exhibits

31.1 Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.

32.1 Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002.

32.2 Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORIENT PAPER, INC.

Dated: May 10, 2011

By: /s/ Zhenyong Liu  
Name: Zhenyong Liu  
Title: Chief Executive Officer  
(Principal Executive Officer)

Dated: May 10, 2011

By: /s/ Winston C. Yen  
Name: Winston C. Yen  
Title: Chief Financial Officer  
(Principal Financial Officer)