China Sunshine Paper Holdings Company Limited
中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2002

TOUCH OF SUNSHINE

2011 Annual Report

*For identification purposes only

Main Products

White top linerboard

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

Advanced light coated and Light coated linerboard

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

Core board

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

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Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Directors

Mr. Wang Junfeng
Mr. Xu Fang

Independent Non-Executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

(Nomination committee was established on 27 March 2012, and its members were appointed on the same day)

Mr. Xu Ye *(Chairman)*
Mr. Wang Dongxing
Mr. Wang Zefeng

Company Secretary

Mr. Ng Cheuk Him *CPA, ACS*

Authorised Representatives

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

Principal Place of Business in China

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal Place of Business in Hong Kong

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

Registered Office

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

Principal Share Registrar and Transfer Office in Cayman Islands

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

Hong Kong Share Registrar and Transfer Office

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

Auditor

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

Legal advisers as to the laws of Hong Kong

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

Stock Code

2002

Website

www.sunshinepaper.com.cn

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), we are pleased to present the annual report of the Group for the financial year ended 31 December 2011.

Operation

For the year ended 31 December 2011 ("FY 2011"), our Group completed the construction of the fifth production line ("PL 5"), which has commenced its commercial production in March 2011. Together with the remaining four production lines, the annual designed production capacity of our Group has reached approximately 1.1 million tons. All production lines have been operated at their optimum level during FY 2011. Regular repair and maintenance, and facilities upgrades have been carried out to refine our production lines in order to further enhance our Group's edge in producing packaging papers. Our steam and power plant and recovered paper collection points continued to provide our Group with stable and low-cost steam, electricity and domestic recovered paper, respectively, for our production activities. Other ancillary facilities, such as waste water treatment, have been operating smoothly. Our Group emphasizes in work safety and there was no serious injury occurred during FY 2011.

China's economy continued to be volatile during FY 2011. Our Group's sales and operating result were able to meet our target for the first three quarters of 2011. However, the tightened liquidity in China affected the demand of packaging paper from local printing and packaging box manufacturers in the fourth quarter of 2011. Our Group has faced a decline in selling prices of our paper products since October 2011. Also, the higher raw material costs and heavier interest expenses burden have further eroded most of our profit for the second half of 2011.

In December 2011, our Group has successfully bid in an open auction for certain production facilities with an annual designed production capacity of approximately 35,000 tons of decorative paper, and other auxiliary equipment. For details of the acquisition, please refer to the announcements of the Company dated 19 December 2011, 20 December 2011, 24 February 2012, 16 March 2012 and 30 March 2012, and the circular of the Company dated 3 April 2012.

The domestic demand of decorative paper is less affected by the European sovereign debt crisis. Directors of our Company (the "Directors") believe that the accelerated urbanization and the faster pace of the construction of economically affordable housing in China provide sustained driving forces for growth of the decorative paper. It is expected that the acquisition will be completed in the second quarter of 2012, and the commercial production of decorative paper will commence thereafter. We believe the acquisition will allow our Group to offer a broader spectrum of paper products and further enhance our Group's operating result.

Production facilities and recovered paper collection points

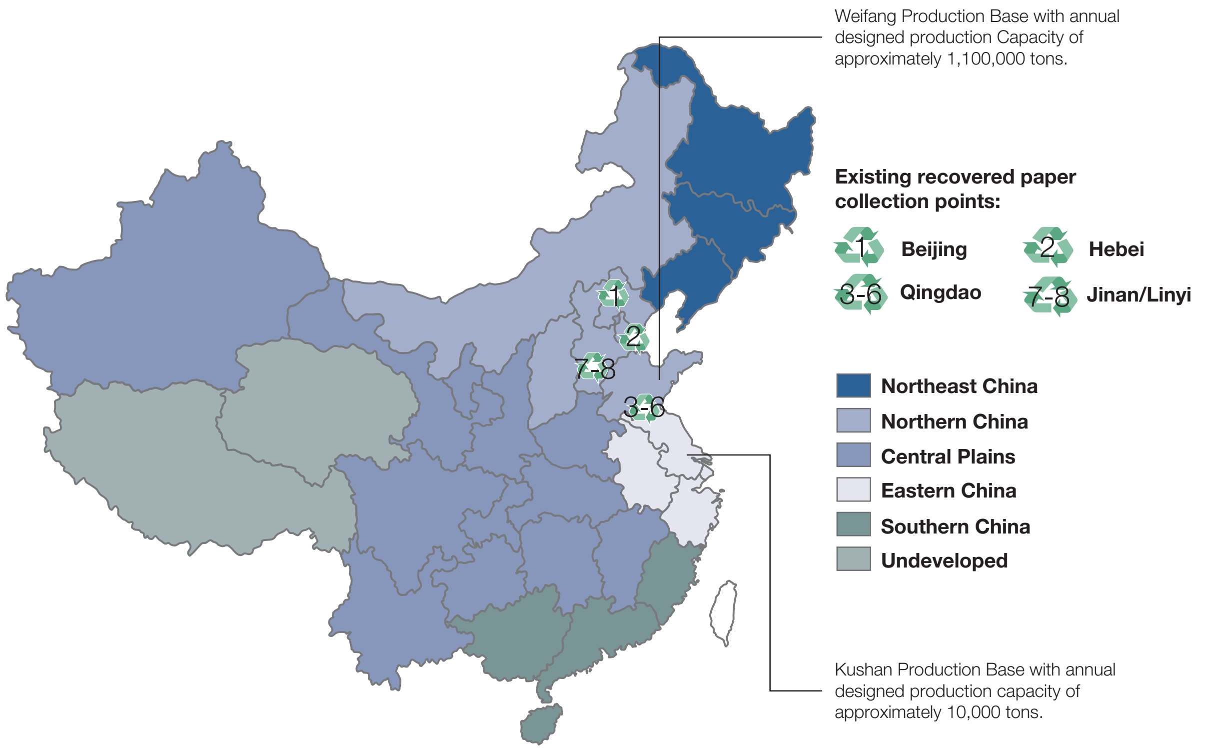
The production output of our Group in FY 2011 was approximately 950,000 tons, representing a utilization rate of approximate 85.5% of its total designed production capacity of approximately 1.1 million tons of our five production lines in operation in 2011.

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

* *Production of White-top and Light-coated is interchangeable*

** *Approximate numbers*

Our Group consumes both domestic recovered paper and overseas recovered paper for our production to achieve an equilibrium between cost and quality. In terms of quantity, domestic recovered paper consumed represented approximately two-thirds of the recovered paper consumed by our Group while the remaining one-third was overseas recovered paper, which was mainly sourced from the United States of America. Currently, our Group has 8 recovered paper collection points spanning across Northern China and Northeast China. Our recovered paper collection points supplied approximately 40% of domestic recovered paper consumed by our Group.



* *For illustration purpose only*

Outlook

Our Group remains cautiously optimistic about China's economy as the global economy remains uncertain in 2012. In light of the European sovereign debt problem and the double-digit unemployment rate in the Euro zone, the economy of the west may remain weak. China still aims to deliver steady and robust economic development and adheres to a proactive fiscal policy and prudent monetary policy in 2012. However, it has lowered its economic growth target from the symbolic 8% in previous years to 7.5% in 2012, according to the 11th National People's Congress of the People's Republic of China ("PRC"). Having said that, it still emphasized "boost domestic consumption" as the foothold for the long term development of China's economy and a prominent task of the PRC's government in 2012. Our Group believes by boosting domestic consumption, it will eventually bring opportunities for the packaging paper industry.

Our Group believes the demand and supply of packaging papers in China is at an equilibrium. On the other hand, the industry consolidation continues in 2012. In January 2012, the National Development and Reform Commission announced the plan to eliminate poor efficiency paper manufacturers with an aggregated production capacity of 10 million tons during the 12th Five Year Plan period. Second, the number of paper manufacturers that have closed down increased at a faster pace due to the more stringent environmental regulations and tightened monetary policy in China. Finally, other players in the paper industry will orderly reschedule their production expansion plans in response to market changes.

The business environment in the paper industry showed a slight improvement after the Chinese New Year in 2012. Sales momentum slightly improved after a re-stocking from our customers, whose cash flows have been released after the down adjustment in bank reserve ratio and a gradual loosening of the monetary policy. We believe they will further increase their inventory level from the lowest point in the fourth quarter 2011.

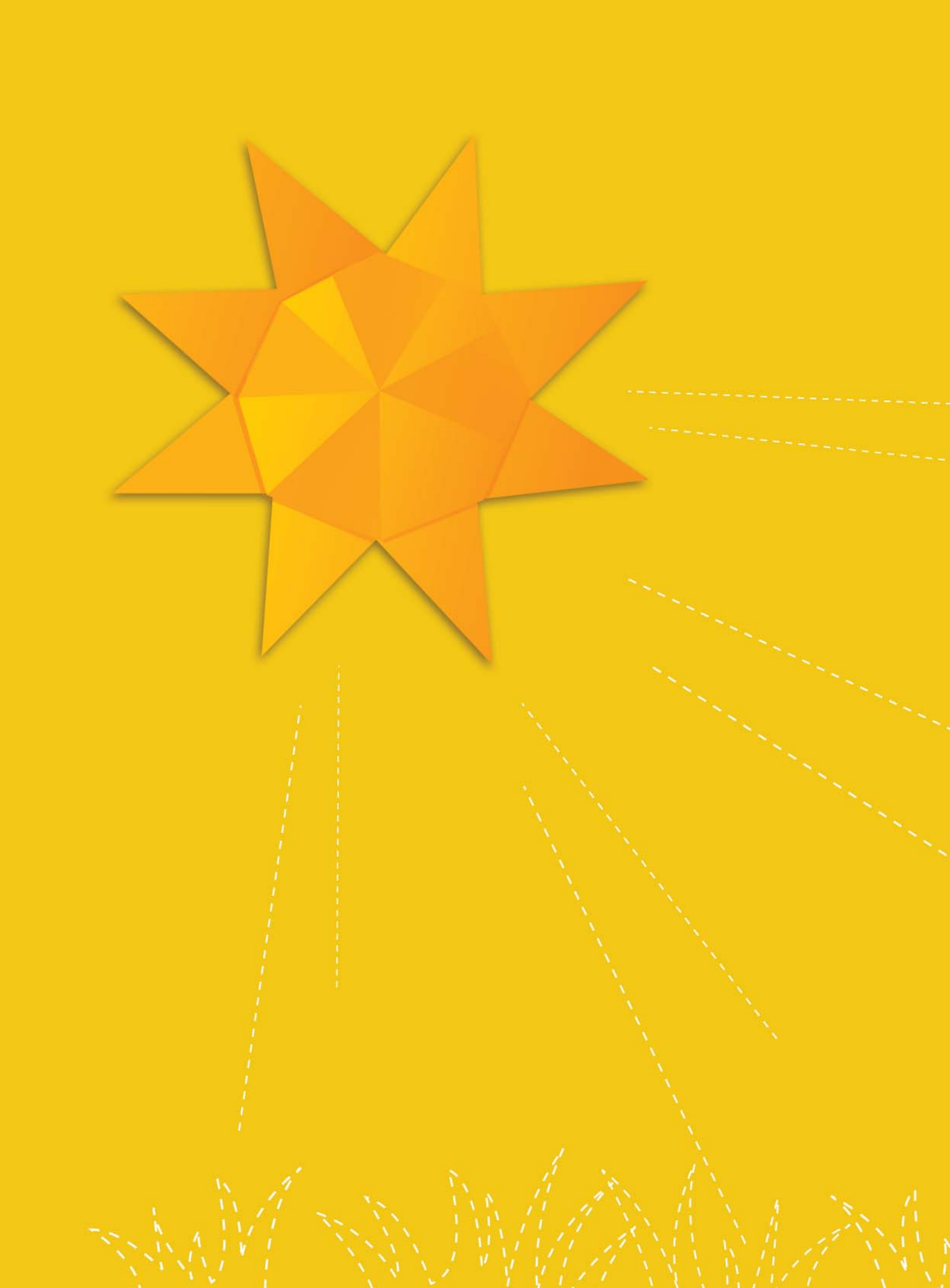
Our Group strategically purchased overseas recovered paper and kraft pulp whose prices were trading at low levels during the fourth quarter of 2011. Our Group expects that such purchases will assist our Group in controlling our production costs in 2012.

Facing the challenges as well as the ever changing business environment, our Group is dedicated to enhance our competitive edge through economies of scales and to adjust our business strategies in a timely manner in order to maintain our profitability. Our Group's existing production capacity is set to capture the business opportunities from the rebound of paper industry in China.

Finally, our Board would like to take this opportunity to express my gratitude to all shareholders, customers, suppliers, banks, professional parties and employees of our Group for their continuous support.

Wang Dongxing
Chairman

Hong Kong
27 March 2012



Positive
積極

Management Discussion and Analysis
管理層討論及分析

Management Discussion and Analysis

Total revenue and ASP

Our Group's total revenue for FY 2011 was RMB3,721.2 million, a historical high and representing an increase of approximately 51.5% as compared to RMB2,456.5 million for the year ended 31 December 2010 ("FY 2010"). The major contributor of the revenue remained sales of paper products. Sales of paper products, representing 96.9% of our Group's total revenue for FY 2011, increased from RMB2,293.4 million for FY 2010 to RMB3,606.8 million for FY 20101. Such increase was driven by the increase in production and sales volume of our packaging paper products as a result of PL5 having commenced its commercial production in March 2012.

The average selling prices ("ASP") of our Group's paper products for FY 2011 recorded an increase as compared to that of FY 2010. However, our Group was unable to fully pass on the higher production cost to our customers during FY 2011. As a result, the gross profit margin of most of our Group's paper products, except for Core Board, experienced a decline as compared to that of FY 2010.

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

	FY 2011			FY 2010		
		Gross profit			Gross profit	
	RMB'000	margin (%)*	%	RMB'000	margin (%)*	%
White-top	1,221,544	16.6	32.8	891,472	19.0	36.3
Light-coated	328,933	22.9	8.8	623,808	26.0	25.4
Advanced light-coated	1,182,618	13.7	31.8	—	—	—
Core board	600,111	21.6	16.1	540,087	12.6	22.0
Specialized paper products	273,625	14.2	7.4	238,008	11.3	9.7
Subtotal of sales of paper products	3,606,831	16.9	96.9	2,293,375	18.6	93.4
Sales of raw materials	—	—	—	60,666	26.9	2.5
Sales of electricity and steam	114,358	15.4	3.1	102,499	12.6	4.1
	3,721,189	16.8	100.0	2,456,540	18.5	100.0

* *approximate numbers*

The following table sets out the ASP of our Group's core paper products:

	FY 2011 RMB per ton*	FY 2010 RMB per ton*	% increase/ (decrease)
White-top	4,040	3,840	5.2%
Light-coated	4,450	4,230	5.2%
Advanced light-coated	4,080	—	N/A
Core board	3,260	2,460	32.5%

* *approximate numbers*

Cost of sales

Our Group's cost of sales increased by 54.7%, from RMB2,001.1 million for FY2010 to RMB3,095.1 million for FY2011, which was generally in line with the increase in the total revenue.

With respect to the paper products segment, raw material costs represented approximately 78.0%, which was comparable to that of FY2011. Domestic recovered paper, overseas recovered paper, and kraft pulp accounted for approximately 33.0%, 20.0% and 15.0%, respectively, of the cost of sales. Chemicals and additives consumed during the manufacturing process accounted for approximately 10% of the cost of sales.

Manufacturing overhead costs accounted for approximately 20% of the cost of sales for FY2011, in which depreciation, electricity and steam already represented nearly 90% of manufacturing overhead cost.

The remaining 2% of cost of sales represented labour cost.

Gross profit and gross profit margin

The gross profit increased by RMB170.6 million, or 37.5% from RMB455.5 million for FY 2010, to RMB626.1 million for FY 2011. On the contrary, the overall gross profit margin of our Group decreased from 18.5% for FY 2010 to 16.8% for FY 2011. With respect to the paper products segment, its gross profit margin decreased from 18.6% for FY 2010 to 16.9% for FY 2011.

Other profit and loss items

Other income, gains and losses mainly comprised of interest income of RMB20.4 million (FY 2010: RMB23.9 million), government grants of RMB36.6 million (FY 2010: RMB51.4 million), which were mainly in relation to the valued-added tax refund for the sales of domestic recovered paper, and exchange gain of RMB16.2 million (FY 2010: RMB11.5 million).

Distribution and selling expenses primarily consisted of transportation cost and staff costs. Such expenses increased from RMB122.1 million for FY 2010 to RMB204.3 million for FY 2011. As a percentage of total revenue, it recorded an increase from 5.0% in FY 2010 to 5.5% in FY 2011.

Administrative expenses increased from RMB116.3 million for FY 2010 to RMB131.2 million for FY 2011. On the contrary, the ratio of the administrative expenses to total revenue recorded a decrease from 4.7% in FY 2010 to 3.5% in FY 2011.

Finance costs increased from RMB101.0 million for FY 2010 to RMB258.1 million for FY 2011. The sharp increase in finance costs reflected (i) the increase in outstanding bank borrowings; (ii) the more frequent use of discounted post-dated bills facilities provided by the banks; and (iii) higher borrowing interest rate and bills discount charges under the tightened credit policies in China during FY 2011.

Income tax expenses

Income tax expenses decreased from RMB28.4 million for FY 2010 to RMB27.2 million for FY 2011. On the contrary, the effective tax rate increased from 14.0% in FY 2010 to 23.5% in FY 2011. A principal subsidiary of our Group has been recognized as high technology enterprise and its applicable income tax rate is 15% in the fiscal year 2012, thus, our Group expected that the effective tax rate will decrease in the fiscal year 2012.

Profit and total comprehensive income

As a result of the factors discussed above, the net profit and the profit attributable to the owners of our Company for FY2011 was RMB88.5 million and RMB82.4 million, respectively, representing a decrease of approximately 49.2% and 51.4% as compared to RMB174.3 million and RMB169.6 million, respectively, for FY2010.

Liquidity and financial resources

Working capital

Internally generated operating cash flow and credit facilities provided by principal bankers are the main sources of funding to meet our Group's working capital requirements. Our Group had bank balances and cash, including restricted bank deposits, of approximately RMB1,183.7 million as at 31 December 2011, representing an increase of RMB545.3 million as compared with that of RMB638.4 million as at 31 December 2010.

Inventories increased by RMB79.6 million, from RMB545.5 million as at 31 December 2010 to RMB625.1 million as at 31 December 2011. The increase in inventories was mainly due to the fact that our Group has strategically increased the purchase of low-price overseas recovered paper and kraft pulp during the fourth quarter 2011. Despite the increase in the absolute amount of inventories, its turnover day decreased from 99 days for FY2010 to 74 days for FY2011.

Trade receivables increased from RMB190.5 million as at 31 December 2010 to RMB362.3 million as at 31 December 2011. The absolute amount of trade receivables nearly doubled, reflecting the increase in our Group's total revenue. The turnover days of trade receivables for FY2011 was 35 days, which was generally in line with 30 to 45 days credit period given to our Group's customers and comparable to 28 days for FY2010.

As at 31 December 2011, our Group recorded net current liabilities of RMB1,088.7 million (as at 31 December 2010: RMB802.1 million). The current ratio was 0.75 times and 0.78 times, respectively, as at 31 December 2011 and 2010. Despite there was an increase of RMB286.6 million in net current liabilities, our Group still possessed sufficient cash resources from operating cash inflow and available banking facilities to meet our Group's working capital requirement.

Our Group has no significant capital expenditure for business expansion in 2012. It is expected that most of operating cash inflow will be utilized to repay bank borrowings in order to improve our financial position. Meanwhile, our Group will continue to adjust the mix of short term and long term borrowings to optimize our debt structure.

Cashflow

Our Group have recorded a positive operating cash flows for FY2011 after three consecutive years negative operating cash flows since the fiscal year 2008. Net cash inflows from operation showed an impressive improvement from cash outflows of RMB9.9 million for FY2010 to cash inflows of RMB291.7 million for FY2011. The improvement was mainly driven by the commercial operation of PL5 and the implementation of stringent working capital management during FY2011. Our Group recorded a net increase in cash and cash equivalents of RMB22.6 million during FY2011, representing a combined effect of operating cash inflows from operation of RMB291.7 million, cash inflows from financing activities of RMB663.8 million, and cash outflows for investing activities of RMB932.9 million.

Gearing

Our Group's net gearing ratio (calculated based on total of borrowings and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by the total equity) was 129.2% as at 31 December 2011, representing a continuous improvement as compared to 139.6% as at 30 June 2011 and 143.3% as at 31 December 2010.

Capital expenditure

During FY2011, the capital expenditure of our Group was approximately RMB249.2 million, which was mainly relating to PL5 and its related ancillary facilities.

Capital commitments and contingent liabilities

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**200,960**	369,662

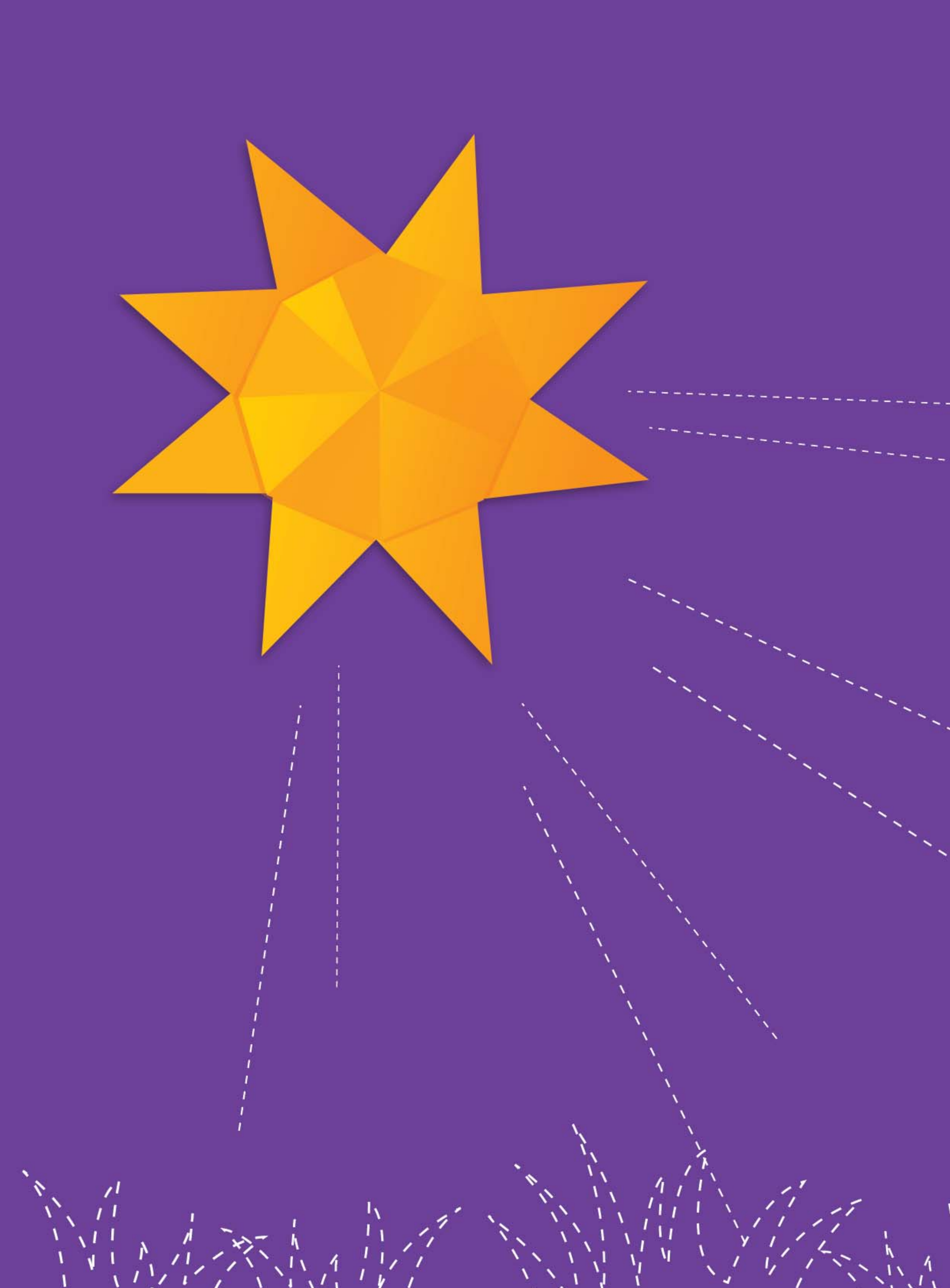
As at 31 December 2011, our Group had no material contingent liabilities.

Pledge of assets

As at 31 December 2011, the aggregate carrying amount of the assets of our Group pledged was RMB2,587.7 million.

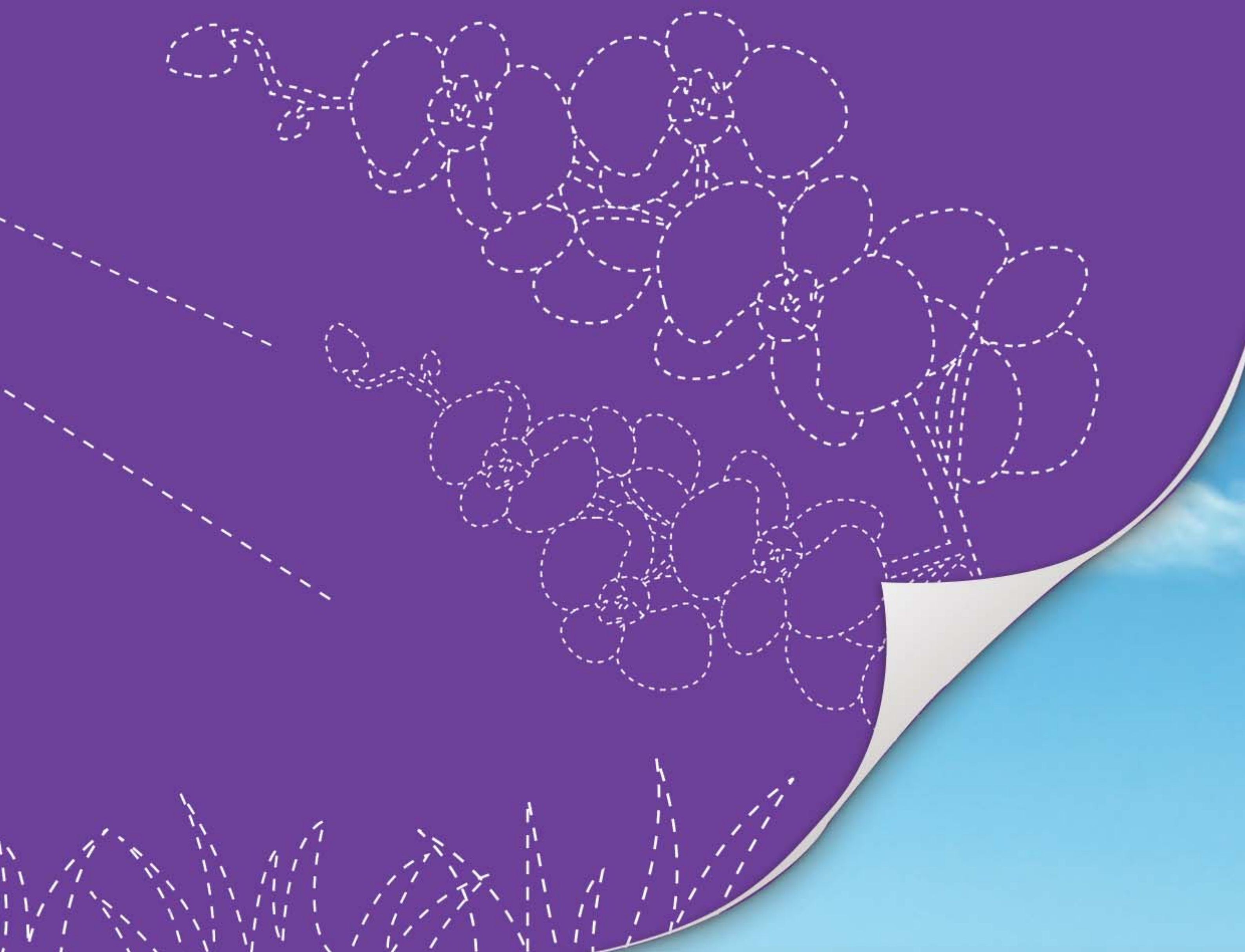
Employees and remuneration policies

As at 31 December 2011, our Group employed approximately 3,000 full-time employees in the PRC and Hong Kong. The staff costs for FY2011 were approximately RMB118.4 million, representing an increase of RMB16.1 million over FY2010. The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our Group's business development, so as to achieve our Group's operational targets.



Optimistic
樂觀

Corporate Governance Report
企業管治報告



Corporate Governance Report

Corporate Governance Practices

As at 31 December 2011, our Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman of our Board and executive director of our Company (the "Director") and also the general manager of Shandong Century Sunshine Paper Group Co., Ltd., the principal operating subsidiary and the immediate holding company of the subsidiaries of our Group in China. In addition to such roles, with Mr. Wang's extensive experience in the paper industry, our Board considers that it is in the interest of our Group and our Shareholders as a whole for him to be given the overall management responsibility of our Group. The Board considers that vesting the roles of chairman of our Board and functions of chief executive officer of our Company in the same person, namely Mr. Wang Dongxing, is appropriate for our Company at this stage and believes that such arrangement will not result in any material adverse impact to the efficiency of operation and management of our Company.

Model Code for Securities Transactions by the Directors

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by our Directors. Specific enquiries have been made to all Directors by our Company to confirm that all Directors have complied with the Model Code during the year ended 31 December 2011.

The Board

Our Board is responsible for the overall development and guidance of our Group. It formulates business strategies and policies for our Group and oversees the effectiveness of management strategies to maximize long-term shareholders' value. Our Group's management team takes charge of the daily operations of our Group. Our Board primarily performs the following duties:

— formulate long-term business strategies;

— approve annual budgets;

— review operating and financial performance;

— discuss and approve acquisition opportunities, investments and significant capital expenses;

— approve the appointment of Directors and the company secretary of our Company; and

— monitor the performance of our Group's management.

The chairman of our Board is responsible for the management and operation of our Board. Our executive Directors (including the chairman of our Board) also take charge of the operations of our Company.

Biographical details of our Directors and their respective terms of appointment are set out in the section headed "Directors, Senior Management and Staff" to this report.

In accordance with the articles of association of our Company, one third (or not less than one third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and, being eligible, offer themselves for re-election at such annual general meeting. Mr. Wang Yilong, Mr Wang Junfeng and Mr. Xu Ye will retire from office at the forthcoming annual general meeting of our Company. Mr. Wang Junfeng and Mr. Xu Ye, being eligible, will offer themselves for re-election. Mr. Wang Yilong will not offer himself for re-election at the forthcoming annual general meeting. The Board proposed to appoint, subject to approval of shareholders of our Company (the "Shareholders"), Mr. Ci Xiaolei as an executive Director in place of Mr. Wang Yilong.

Our Company has received from each of our independent non-executive Directors an annual confirmation of his independence for the year ended 31 December 2011 in accordance with Rule 3.13 of the Listing Rules. Our Company considers all of the independent non-executive Directors are independent.

Our Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of our Company.

Board Meetings

Before a board meeting is convened, relevant documents will be sent to our Directors for their review pursuant to the Listing Rules and the CG Code. During the year ended 31 December 2011, four board meetings were held and the attendance of each Director is set out below:

	Number of board meeting attended during the year ended 31 December 2011	**Attendance rate**
Executive Directors		
Mr. Wang Dongxing	4/4	100%
Mr. Shi Weixin	4/4	100%
Mr. Zhang Zengguo	4/4	100%
Mr. Wang Yilong	4/4	100%
Non-executive Directors		
Mr. Xu Fang	4/4	100%
Mr. Wang Junfeng	4/4	100%
Independent non-executive Directors		
Mr. Wang Zefeng	4/4	100%
Mr. Xu Ye	4/4	100%
Mr. Leung Ping Shing	4/4	100%

Audit Committee

Our Company has established an audit committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Company and to provide advice and comments to our Board. The members of the audit committee are all of our independent non-executive Directors, namely Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye. Mr. Leung Ping Shing is the chairman of the audit committee during the relevant period. Two audit committee meetings were held during the year ended 31 December 2011 and all members have attended such meetings.

Remuneration Committee

Our Company has established a remuneration committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng and Mr. Leung Ping Shing. Mr. Wang Zefeng is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and give recommendations to our Board in relation to the remuneration and other benefits paid by our Company to our Directors and the senior management of our Group. The remuneration of all our Directors and the senior management our Group is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. One remuneration committee meeting was held during the year ended 31 December 2011 and all members have attended such meeting.

Nomination Committee

During the year ended 31 December 2011, our Company has not established any nomination committee.

Auditors' Remuneration

For the year ended 31 December 2011, the fee paid or payable to the auditors of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.4 million and RMB Nil, respectively.

Internal Control

Our Board has overall responsibility for our Group's system of internal control and for reviewing its effectiveness.

Our Board will conduct regular review regarding internal control systems of our Group. During the year ended 31 December 2011, our Board has reviewed the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. Besides, the audit committee of our Company and our Board also will perform regular review on our Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of our Group and such review conducted during the year ended 31 December 2011 did not reveal any major issues.

Directors' Responsibility on the Consolidated Financial Statements

Our Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2011, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditor of our Company on the consolidated financial statements of our Group are set out in the independent auditor's report on page 47.

Report of the Audit Committee

Members

The audit committee of our Company consists of three independent non-executive Directors, namely, Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye. Biographical details of the current members are set out in the section headed "Directors, Senior Management and Staff".

Terms of Reference

Based on the terms of reference of the audit committee as at 31 December 2011, members of the committee shall, among other things, oversee our Group's relationship with its external auditors, review the preliminary results, interim results and annual financial statements, monitor the compliance with statutory requirements and the Listing Rules, review the scope, extent and effectiveness of our Group's internal audit functions, and, where necessary, commission independent investigations by legal advisers or other professionals.

Meetings

Two audit committee meetings were held during the year ended 31 December 2011 and all members have attended such meetings.

The following is a summary of the tasks completed by the audit committee up to the date of this report:

- reviewed the consolidated financial statements for the year ended 31 December 2011;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2011;
- reviewed the external auditor's audit plan, FY2011 letter of representation and audit engagement letter;
- considered and approved the FY2011 external audit fees;
- reviewed our Company's internal control systems; and
- reviewed the "Continuing Connected Transactions" set out on pages 44 to 46 of this annual report.

Financial Reports

The audit committee reviewed and considered the reports and statements of the management to ensure that the consolidated financial statements of our Group have been prepared in accordance with International Financial Reporting Standards and Appendix 16 to the Listing Rules. The committee also met with the external auditors of our Company, Deloitte Touche Tohmatsu, to consider the scope and results of their independent audit in respect of the consolidated financial statements.

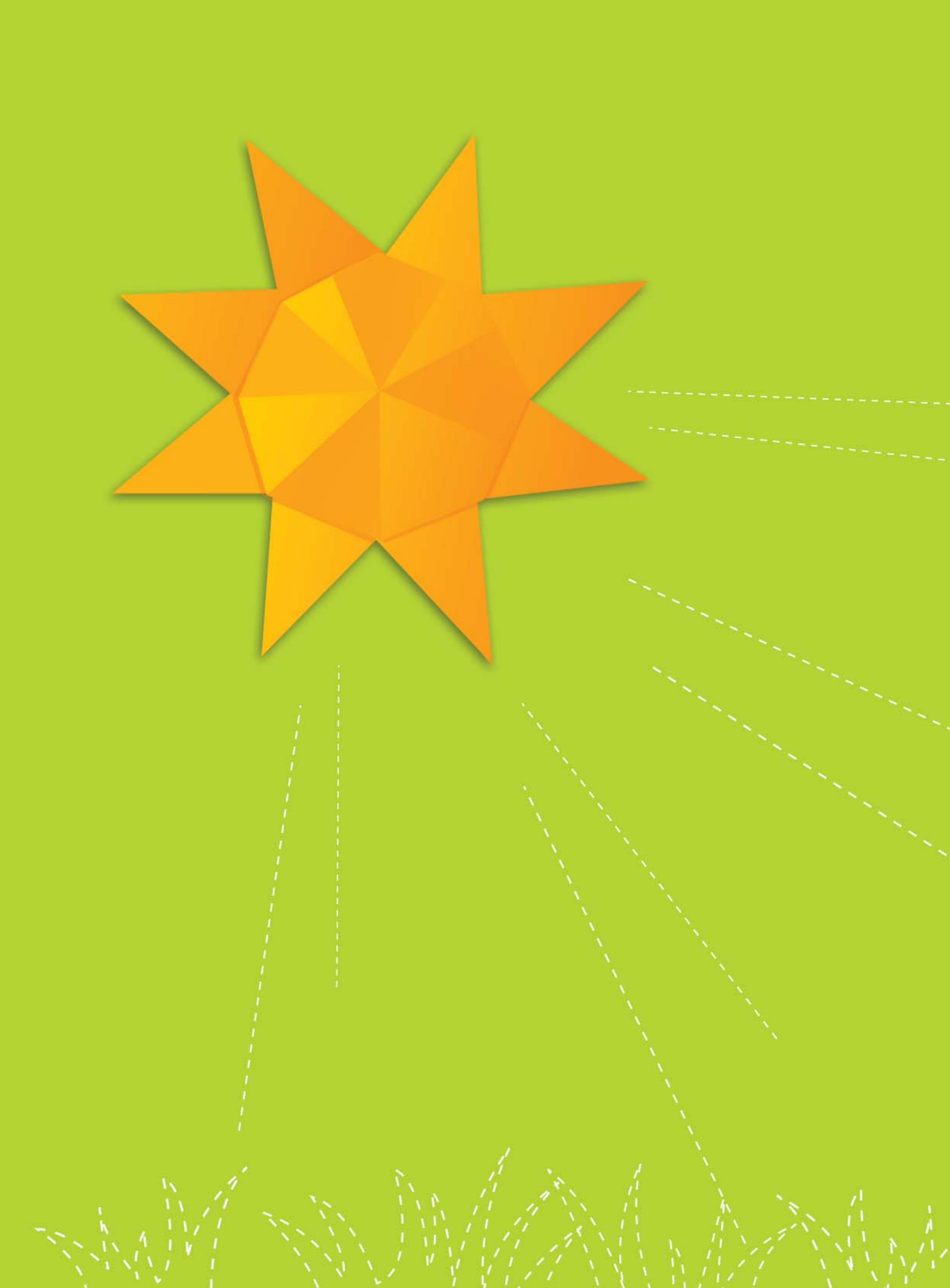
Review of Internal Control and Risk Management Systems

The audit committee assisted our Board to perform its duties to maintain an effective internal control system for our Group. The audit committee reviewed our Group's procedure and workflow for environmental and risk assessment and its initiatives for business risks management and control.

Re-Appointment of External Auditor

The audit committee recommended to our Board that, subject to Shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as our Company's external auditor for the year ending 31 December 2012.

For the year ended 31 December 2011, the external auditors of our Company received or will receive approximately RMB1.4 million in total for their audit services rendered. The external auditors have not provided any non-audit services to our Company during the year ended 31 December 2011.



Energetic
活力

Directors, Senior Management and Staff
董事，高級管理層及員工

Directors, Senior Management and Staff

Board of Directors

Our Board is responsible for and has general powers over the management and conduct of our Group's business. Our Board consists of nine Directors including four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Company has entered into service contracts with each of our executive Directors. The table below shows certain information in respect of members of the Board:

Name	Age	Position in our Group
Executive Directors		
Mr. Wang Dongxing	49	Chairman of our Board, general manager of our Group, a member of the remuneration committee and a member of the nomination committee
Mr. Shi Weixin	55	Vice chairman of our Board
Mr. Zhang Zengguo	46	Deputy general manager of our Group
Mr. Wang Yilong	49	
Non-executive Directors		
Mr. Wang Junfeng	38	
Mr. Xu Fang	34	
Independent non-executive Directors		
Mr. Leung Ping Shing	53	Chairman of the audit committee and a member of the remuneration committee
Mr. Wang Zefeng	51	Chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee
Mr. Xu Ye	39	Chairman of the nomination committee and a member of the audit committee

Executive Directors

Mr. Wang Dongxing, aged 49, is an executive Director, the chairman of our Board and the general manager of our Group. Mr. Wang is also a member of the remuneration committee and a member of the nomination committee of our Board. With over 20 years of experience in the paper manufacturing industry, Mr. Wang is responsible for the overall management and strategy of our Group. Mr. Wang has been with our Group since the establishment of Changle Century Sunshine Paper Industry Co., Ltd. ("Changle Sunshine") in 2000. He graduated from 山東輕工業學院 (Shandong Institute of Light Industry) with a Bachelor of Engineering degree in 1983, with a major in pulp and paper making. He served as a director and deputy general manager of Shandong Chenming Paper Holdings Limited ("Shandong Chenming"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 1812), which was mainly engaged in the business of production of machine-made paper, paper plate, paper materials and paper-making related machineries from 1985 to 1999. He was mainly responsible for the daily operation and management in Shandong Chenming. He served as a factory manager of Shandong Chenming Paper Industry Group Qihe Cardboard Co., Ltd ("Qihe Cardboard") from 1995 to 1996. During his tenure in office in Qihe Cardboard, Mr. Wang obtained the Qihe County's Economic Special Achievement Golden award. He also served as a factory manager of Shandong Chenming No. 2 Factory from 1997 to 1998, and was the general manager of Wuhan Shuailun Paper Industry Co., Ltd. from 1999 to 2000.

Mr. Shi Weixin, aged 55, is an executive Director and the vice chairman of our Board. With over 20 years of experience in electrical automation control, Mr. Shi is responsible for the management of the automation system. Mr. Shi has been with our Group since the establishment of Changle Sunshine in 2000. He graduated from China Textile University in 1986, with a major in industrial electrical automation. Mr. Shi used to be a director of Shanghai Paper Manufacturing Machinery General Factory from 1981 to 1992 and was responsible for the design of the automation control system for paper-making equipments. During 1984 to 1992, he has been named as an "Excellent Technician" twice. In 1993, Mr. Shi founded Shanghai Paper Mechanical Electric Control Technology Institute ("Shanghai Institute"), and has been its chairman and general manager since 1993. Mr. Shi was primarily responsible for management and operation in Shanghai Institute. He was also a member of the Shanghai Hongkou District Committee of Political Consultative Conference, a member of the executive committee of Shanghai Hongkou Federation of Industry and Commerce and a director of Hongkou Association of Entrepreneurs Association. Mr. Shi won the "Shanghai City Technological Achievement" award in 2000.

Mr. Zhang Zengguo, aged 46, is an executive Director and the deputy general manager of our Group and is responsible for production management. Mr. Zhang joined our Group in 2001. He is also the director of the technical department, assistant general manager and deputy general manager of Changle Sunshine since 2001. He graduated from the Shandong Institute of Light Industry in 1988, with a major in pulp and paper manufacturing. Mr. Zhang was the department director and engineer of Jinguang Paper Mill from 1993 to 2000. During his tenure in office in Jinguang Paper Mill, Mr. Zhang was primarily responsible for the design, construction and test run of projects.

Mr. Wang Yilong, aged 49, is an executive Director of our Group and is responsible for facilities management. Mr. Wang has been with our Group since the establishment of Changle Sunshine in 2000. He graduated from Tongji University in 1985, with a major in electronic automation. He is also the deputy general manager of the Shanghai Institute since 1993, with the responsibility of marketing, sales and production. He was the technical director of the Shanghai Rectifier General Factory from 1985 to 1992, and was responsible for the design of products and sales.

Non-executive Directors

Mr. Wang Junfeng, aged 38, is a non-executive Director. He obtained a Bachelor's degree majoring in Chemistry in Lanzhou University (蘭洲大學) in 1995 and a Master's degree majoring in finance from McMaster University of Canada in 2004. He is currently the managing director of Legend Capital Management Limited (聯想投資有限公司) and is responsible for investment management. Mr. Wang has been an executive director of Hiconics Drive Technology Co., Ltd (SHE: 300048) (北京合康億盛變頻科技股份有限公司), a company listed on the Shenzhen Stock Exchange, since March 2009 and is mainly responsible for the overall management and strategy. Prior to joining Legend Capital Management Limited in 2004, Mr. Wang worked in Lenovo Group Limited (聯想集團有限公司) between 1997 and 2001 and in Beijing Building Material Group (北京金隅集團) between 1995 and 1997.

Mr. Xu Fang, aged 34, is a non-executive Director. Mr. Xu joined our Group in 2006. Mr. Xu graduated from Jiangxi University of Finance and Economics, with a major in international finance in 1998. He is currently an executive director of China Everbright Investments Management Limited. Mr. Xu worked in Shenzhen UnionNet Company between 1998 and 2001 and in Taiwan Securities Co (Hong Kong), Ltd. between 2001 and 2003.

Independent Non-executive Directors

Mr. Leung Ping Shing, aged 53, is an independent non-executive Director. Mr. Leung joined our Group in 2010. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of our Board. Mr. Leung has over 16 years of experience in accounting and financial management in China and abroad. Mr. Leung obtained a Bachelor's degree in Business Administration from Simon Fraser University, Vancouver, Canada, in 1982. He had worked in the hotel and investment banking industries. In the past 10 years, he had assumed senior executive management roles overseeing finance and accounting matters for well known companies such as the Shangri-La Hotels group and the Jin Jiang Hotels group.

Mr. Wang Zefeng, aged 51, is an independent non-executive Director. Mr. Wang joined our Group in 2007. Mr. Wang is also the chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee of our Board. Mr. Wang graduated from Shandong Institute of Light Industry in 1982 with a Bachelor's degree in industrial art of pulp and paper manufacturing. He is currently the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group. He is also the vice chairman of Shandong Paper Manufacturing Industry Association, Shandong Light Industry Machinery Association and Shandong Packaging Printing Association. He worked in Shandong Light Industry Design Institute from 1988 to 2001.

Mr. Xu Ye, aged 39, is an independent non-executive Director. Mr. Xu joined our Group in 2007. Mr. Xu is also the chairman of the nomination committee and a member of the audit committee of our Board. Mr. Xu founded Star Link Investments Holdings Ltd. ("Star Link Investments") in 2005 and is currently its managing partner. Star Link Investments specializes in investments, merger and acquisition advisory, and business consulting services. Mr. Xu had significant professional experiences with international investment banks including Lehman Brothers International from 2000 to 2001, Banque Paribas in 1998, and L.E.K. Consulting, a prestigious multinational consultancy focusing on corporate strategy, from 2001 to 2002. He also worked as the chief financial officer of Novanat Bio-Resources Inc. from 2003 to 2004. Mr. Xu obtained his MBA from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor of Arts and Bachelor of Science degrees from the Shanghai International Studies University and the Shanghai University of Finance and Economics in 1994, respectively.

Senior Management

Mr. Ci Xiaolei, aged 36, is the general manager and the general engineer of our Group and is responsible for the production management of our Group. Mr. Ci joined our Group in 2003. Mr. Ci graduated from Anhui University of Technology and Science with a Bachelor of Engineering in 1998. Mr. Ci has been the project manager, deputy general engineer and general engineer of the production facilities of our Group. Prior to joining the Group, Mr. Ci worked at Shandong Chenming Paper Industry Group Co., Ltd. and was responsible for equipment management and maintenance.

Mr. Liu Wenzheng, aged 40, is the deputy general manager of our Group and is responsible for the management of the accounting and finance of our Company's subsidiaries in China. Mr Liu joined the Group in February 2010. Mr Liu graduated from Shandong Administration Institute with a Bachelor's degree in accountancy in 1993. Prior to joining our Group, he was the chief financial controller of Shandong Haoxin Group. He has also worked as a chief financial officer, deputy chief officer and chief officer of the audit department of Qihe Cardboard and was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

Mr. Ruan Guoting, aged 55, is the deputy general manager of our Group and is responsible for infrastructure projects. Mr. Ruan joined our Group in 2002. Mr. Ruan graduated from the Shangdong Construction University with a postsecondary degree in industrial design in 1978, and then he graduated with a post-secondary degree in Architecture Management in 1995. Prior to joining our Group, Mr. Ruan had worked as an engineer in Shouguang Second Construction Engineering Company and Shandong Chenming.

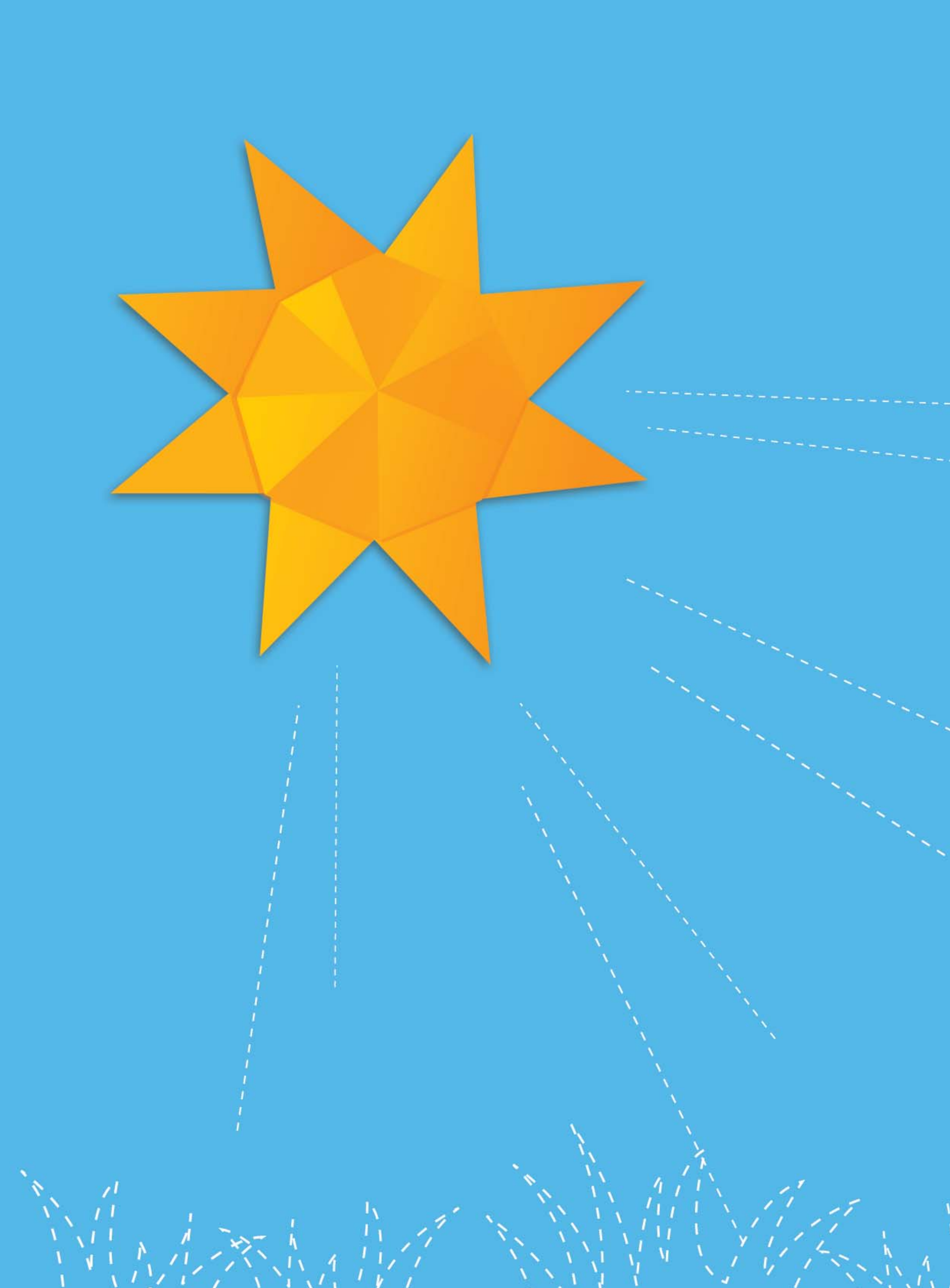
Mr. Sang Ziqian, aged 57, is the deputy general manager of our Group and is responsible for production management. He is also the general manager of Changle Shengshi Thermoelectricity Co., Ltd. ("Shengshi Thermoelectricity"). Mr. Sang joined our Group in 2001. Prior to joining our Group, Mr. Sang worked in Shandong Chenming for 19 years as an assistant economic officer. During his tenure in office in Shandong Chenming, Mr. Sang was primarily responsible for sales, after-sale service and client relationship management.

Mr. Wang Changhai, aged 41, is the deputy general manager of our Group and is responsible for domestic sales. Mr. Wang joined our Group in 2001. Mr. Wang had been a manager and an assistant manager of our Group, and was promoted to the deputy general manager of our Group in 2003.

Mr. Ng Cheuk Him, aged 37, is the chief financial officer of our Group and the company secretary of our Company. Prior to joining our Group, Mr. Ng held a senior position in an international corporate and investment bank in Hong Kong. Mr. Ng has an extensive working experience in corporate financial management, accounting and auditing, including managerial experience in a Hong Kong listed company and an international accounting firm. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Company Secretary

Mr. Ng Cheuk Him. Please refer to the paragraph headed "Senior Management" above for his biography.



Future
前途

Report of the Directors
董事會報告

Report of the Directors

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for the year ended 31 December 2011.

Principal activities

Our Group is principally engaged in the production and sale of paper products.

Results and appropriations

The consolidated results of our Group for the year ended 31 December 2011 are set out in the consolidated financial statements on page 49.

Dividend

We, as the Directors, propose to declare a final dividend of HK$0.025 per ordinary share for the year ended 31 December 2011 (HK$0.05 for the year ended 31 December 2010), which will be subject to approval by our Shareholders at the forthcoming annual general meeting of our Company to be held on 24 May 2012. If approved, the proposed final dividend will be paid to our Shareholders on or before 12 June 2012.

Reserves

Details of the change in reserves of our Group for the year ended 31 December 2011 are set out in the consolidated financial statements on page 52.

Donations

During to financial year ended 31 December 2011, our Group donated a total of RMB0.4 million (2010: RMB0.3 million) for charitable purpose.

Property, plant and equipment

Details of the movements in the property, plant and equipment, and land use rights of our Group during the year ended 31 December 2011 are set out in notes 15 and 16 to the consolidated financial statements.

Share capital

Details of the movements in the share capital of our Company during the year ended 31 December 2011 are set out in note 33 to the consolidated financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of our Company and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

Financial summary

A summary of the consolidated results and of the assets and liabilities of our Group for the last five financial years is set out on page 126.

Subsidiaries

Particulars of the subsidiaries of our Company are set out in note 43 to the consolidated financial statements.

Borrowings

Details of the borrowings of our Group are set out in notes 31 and 32 to the consolidated financial statements.

Purchase, sale or redemption of securities

During the financial year ended 31 December 2011, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of our Company.

Directors

The Directors who held office during the year ended 31 December 2011 and up to the date of this report were:

Executive Directors

Mr. Wang Dongxing *(Chairman of our Board and general manager of our Group)*
Mr. Shi Weixin *(Vice chairman of our Board)*
Mr. Zhang Zengguo *(Deputy general manager of our Group)*
Mr. Wang Yilong

Non-executive Directors

Mr. Xu Fang
Mr. Wang Junfeng

Independent non-executive Directors

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

In accordance with the articles of association of our Company, one third (or not less than one third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and, being eligible, to offer themselves for re-election at such annual general meeting. Mr. Wang Yilong, Mr Wang Junfeng and Mr. Xu Ye will retire from office at the forthcoming annual general meeting of our Company. Mr. Wang Junfeng and Mr. Xu Ye, being eligible for re-election, will offer themselves for re-election. Mr. Wang Yilong will not offer himself for re-election at the forthcoming annual general meeting. The Board proposed to appoint Mr. Ci Xiaolei as an executive Director in place of Mr. Wang Yilong.

Our Company has received from each of its independent non-executive Directors an annual confirmation of his independence during the year ended 31 December 2011 pursuant to Rule 3.13 of the Listing Rules and our Board considers that all of the independent non-executive Directors are independent.

Directors' service contracts

Each of the executive Directors has entered into a service contract dated 15 November 2010 with our Company for a term of three years commencing from 19 November 2010 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract. The annual salary and bonus of each executive Director shall be determined by our Board and subject to the annual review by the remuneration committee of our Company.

Each of Mr. Xu Fang and Mr. Wang Junfeng has signed a letter of appointment dated 15 November 2010 with our Company under which each of them has agreed to act as a non-executive Director for a period of three years, commencing from 19 November 2010 and 12 December 2010, respectively, unless terminated in accordance with the terms and conditions specified in such letter.

Each of Mr. Xu Ye and Mr. Wang Zefeng has signed a letter of appointment dated 15 November 2010 with our Company under which each of them has agreed to act as an independent non-executive Director for a period of three years, commencing from 12 December 2010, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Leung Ping Shing has signed a letter of appointment dated 16 November 2010 with our Company under which he has agreed to act as an independent non-executive Director for a period of three years, commencing from 25 November 2010, unless terminated in accordance with the terms and conditions specified in such letter.

Details of directors' emolument for each of our Directors for the year ended 31 December 2011 are set out in note 11 to the consolidated financial statements.

Except as disclosed above, none of our Directors has a service contract or a letter of appointment with our Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' interests in contracts

No contract of significance in relation to our Group's business to which our Company, any of its fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in securities

As at 31 December 2011, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

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

Notes:

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

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

So far as we, the Directors, are aware, as at 31 December 2011, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of our Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name	Long position/ short position	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	325,387,052	40.54%
China Sunshine(1)	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholder Group(2)	Long	Interest of a party to an agreement to acquire interest in our Company	325,387,052	40.54%
Good Rise Holdings Limited	Long	Beneficial interest	73,547,674	9.16%
LC Fund III, LP(3)	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited(4)	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited(5)	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited(6)	Long	Interest of a controlled corporation	73,547,674	9.16%
Wang Nengguang(7)	Long	Interest of a controlled corporation	73,547,674	9.16%
Seabright SOF (I) Paper Limited	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited(8)	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited(9)	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited(10)	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC(10)	Long	Interest of a controlled corporation	71,341,244	8.89%

Notes:

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

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

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

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

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

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

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

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

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

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

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of our Company as at 31 December 2011.

Share Option Scheme

Pursuant to the written resolution of our Shareholders passed on 19 November 2007, a share option scheme (the "Share Option Scheme") was adopted by our Company. The purpose of the Share Option Scheme is to motivate eligible persons ("Eligible Persons" as mentioned in the following paragraph) to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group.

For the purpose of the Share Option Scheme, Eligible Persons include (a) any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Employee"), any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of our Group, ("Executive"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate (as defined in the Listing Rules) of any of the foregoing persons. The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 40,000,000 shares (the "Scheme Mandate Limit") provided that our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent of the shares of our Company in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company's issued share capital from time to time.

The exercisable of the option is subject to both the achievement of the operating and financial targets of our Group, and the annual appraisal result of the grantees of the option. The remuneration committee of our Company and we, the Directors, will be jointly responsible for monitoring the operating and financial targets of our Group, and the annual appraise of the grantees.

No option may be granted to any Eligible Person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company's issued share capital from time to time. The period within which the options must be exercised will be specified by our Board at the time of grant, which must expire no later than 10 years from the date of grant (being the date on which our Board resolved to offer the grant of an option to the Eligible Person concerned).

An offer of the grant of an option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of offer ("Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme ("Acceptance Date").

An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the Acceptance Date. Such remittance shall in no circumstances be refundable.

The subscription price in respect of any particular option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share of our Company; (b) the closing price of a share of our Company as stated in the daily quotations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sheet on the Offer Date; and (c) the average closing price of a share of our Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date.

Subject to the terms of the Share Option Scheme, such scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, being 12 December 2007, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

On 8 April 2010, our Company granted a share option to an employee to subscribe for 1,600,000 Shares at an exercise price of HK$3.01 per share of our Company (the "Share"). Pursuant to the bonus issue of our Company completed on 2 December 2010 (the "Bonus Issue"), the number of Shares and exercise price per Share under such option have been adjusted to 3,200,000 Shares and HK$1.505 per Share.

Movement of the share options granted to the Eligible Persons under the Share Option Scheme

		Number of share options					
Date of Grant (note 1 and 2)	**Eligible Persons**	**As at 1 January 2011**	**Granted during the year**	**Exercised during the year**	**Expired during the year**	**As at 31 December 2011**	**Exercise period**
8 April 2010	An employee	300,000	—	—	(300,000)	—	(i)
8 April 2010	An employee	800,000	—	—	—	800,000	(ii)
8 April 2010	An employee	800,000	—	—	—	800,000	(iii)
8 April 2010	An employee	800,000	—	—	—	800,000	(iv)

(i) *From 1 July 2010 to 31 December 2011*

(ii) *From 1 July 2011 to 31 December 2012*

(iii) *From 1 July 2012 to 31 December 2013*

(iv) *From 1 July 2013 to 31 December 2014*

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

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

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

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

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

Major customers and suppliers

During the year, our Group purchased less than 30% of its goods from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

Employees and remuneration policies

As at 31 December 2011 our Group had around 3,000 full-time employees. The staff costs for the year ended 31 December 2011 was approximately RMB118.4 million, representing an increase of 16.1 million over last year.

The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. The employee's remuneration packages are generally determined based on their job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve our Group's operational targets.

Corporate governance

Principal corporate governance practices adopted by the Company are set out in the corporate governance report contained in this annual report.

Connected transactions

Certain related party transactions as disclosed in note 41 to the consolidated financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Our Group has entered into two agreements on 27 October 2009 with Weifang Shengtai Medicine Co., Ltd ("Shengtai Medicine"), who is interested in 20% of the registered capital of Shengshi Thermoelectricity. The remaining 80% of the registered capital of Shengshi Thermoelectricity is held by Changle Sunshine, an indirect 99.9% subsidiary of our Company. Transactions under such two agreements constitute continuing connected

transactions under Chapter 14A of the Listing Rules and the details of such continuing connected transactions are set out below:

(a) A steam supply agreement dated 27 October 2009 was entered into between Shengtai Medicine as a customer and Shengshi Thermoelectricity as a supplier. Shengshi Thermoelectricity has agreed to supply steam to Shengtai Medicine for a term of three years from 1 January 2010 to 31 December 2012, renewable for term(s) of not more than three years each upon expiry. The price of steam sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of steam sold by Shengshi Thermoelectricity to Changle Sunshine and it reflects Shengshi Thermoelectricity's policy to sell steam to its shareholders who purchase steam in bulk at a discount. Our Directors consider that the price of steam is fair and reasonable and on normal commercial terms.

    For the year ended 31 December 2011, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB67.4 million, which was below the annual cap of RMB140.5 million for the year ended 31 December 2011.

(b) An electricity supply agreement dated 27 October 2009 was entered into between Shengtai Medicine as the customer and Shengshi Thermoelectricity as the supplier. Shengshi Thermoelectricity has agreed to supply electricity to Shengtai Medicine for a term of three years from 1 January 2010 to 31 December 2012, renewable for term(s) of not more than three years each upon expiry. The price of electricity sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of electricity sold by Shengshi Thermoelectricity to Changle Sunshine and it reflects Shengshi Thermoelectricity's policy to sell electricity to its shareholders who purchase steam in bulk at a discount. The Directors consider that the price of steam is fair and reasonable and on normal commercial terms.

    For the year ended 31 December 2011, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB35.1 million, which was below the annual cap of RMB69.7 million for the year ended 31 December 2011.

Pursuant to Rule 14A.38 of the Listing Rules, our Board engaged the auditor of our Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of our Group. The auditor has reported the factual findings on these procedures to our Board. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of our Group;

(2) either on normal commercial terms or on terms no less favourable to our Group than terms available to or from (as appropriate) independent third parties;

(3) on terms that are fair and reasonable and in the interests of our Shareholders as a whole; and

(4) in accordance with the relevant agreements governing the said transactions.

Compliance with Non-Competition Deed

Each of China Sunrise, China Sunshine and members of the Controlling Shareholders Group (the "Covenantors") has confirmed to our Company of its or his or her compliance with the non-competition undertaking provided to our Company under the deed of non-competition dated 19 November 2007. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under such deed of non-competition have been complied with by the Covenantors.

Sufficiency of public float

Based on the information that is publicly available to our Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of our Company's issued shares up to the date of this report.

Auditors

The consolidated financial statements for the year ended 31 December 2011 have been audited by Deloitte Touche Tohmatsu who will retire at the forthcoming annual general meeting of our Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Dongxing
Chairman

Hong Kong
27 March 2012

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 125, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	6	**3,721,189**	2,456,540
Cost of sales		**(3,095,052)**	(2,001,089)
Gross profit		**626,137**	455,451
Other income, gains and losses	8	**82,429**	95,870
Distribution and selling expenses		**(204,263)**	(122,143)
Administrative expenses		**(131,156)**	(116,281)
Change in fair value of derivative financial instruments		**691**	(9,114)
Finance costs	9	**(258,141)**	(101,015)
Profit before tax	10	**115,697**	202,768
Income tax expense	12	**(27,188)**	(28,446)
Profit and total comprehensive income for the year		**88,509**	174,322
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**82,402**	169,614
Non-controlling interests		**6,107**	4,708
		88,509	174,322
		RMB	RMB
Earnings per share	14		
— Basic		**0.10**	0.21
— Diluted		**0.10**	0.21

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,387,027**	3,318,963
Prepaid lease payments	16	**169,787**	171,302
Goodwill	17	**18,692**	18,692
Deferred tax assets	18	**8,540**	7,598
Deposit for acquisition of property, plant and equipment		**50,000**	—
		3,634,046	3,516,555
Current assets			
Prepaid lease payments	16	**3,465**	3,686
Inventories	19	**625,107**	545,481
Trade receivables	20	**362,326**	190,467
Bills receivable	21	**783,666**	1,236,783
Prepayments and other receivables	22	**384,637**	283,836
Income tax recoverable		**1,208**	—
Restricted bank deposits	23	**935,471**	412,687
Bank balances and cash	23	**248,278**	225,677
		3,344,158	2,898,617
Current liabilities			
Trade payables	24	**551,362**	1,110,936
Bills payable	25	**206,500**	—
Other payables	26	**180,011**	92,672
Payable for construction work, machinery and equipment		**156,160**	307,044
Income tax payable		**783**	21,692
Obligations under finance leases — current portion	27	**53,624**	42,214
Deferred income — current portion	28	**1,995**	2,073
Derivative financial instruments	29	**1,380**	2,242
Discounted bill financing	30	**1,188,542**	688,735
Bank borrowings — due within one year	31	**2,078,456**	1,419,074
Other borrowings	32	**14,000**	14,000
		4,432,813	3,700,682
Net current liabilities		**1,088,655**	802,065
Total assets less current liabilities		**2,545,391**	2,714,490

	Notes	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	33	**72,351**	72,351
Reserves	34	**1,368,855**	1,318,407
Equity attributable to owners of the Company		**1,441,206**	1,390,758
Non-controlling interests		**73,155**	53,987
Total equity		**1,514,361**	1,444,745
Non-current liabilities			
Obligations under finance leases — non-current portion	27	**170,656**	177,389
Bank borrowings — due after one year	31	**823,120**	1,055,681
Deferred income — non-current portion	28	**27,371**	27,495
Deferred tax liabilities	18	**9,883**	9,180
		1,031,030	1,269,745
Total equity and non-current liabilities		**2,545,391**	2,714,490

The consolidated financial statements on pages 49 to 125 were approved by the board of directors on 27 March 2012 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Shi Weixin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000 (note 34)	Capital reserve RMB'000 (note 34)	Share options reserve RMB'000	Assets revaluation reserve RMB'000 (note 34)	Statutory surplus reserve RMB'000 (note 34)	Discretionary surplus reserve RMB'000 (note 34)	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	37,872	610	779,617	(2,776)	83,754	–	4,196	33,935	5,429	285,524	1,228,161	41,876	1,270,037
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	–	169,614	169,614	4,708	174,322
Capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	10,000	10,000
Acquisition of additional interest in a subsidiary (note i)	–	–	–	–	23	–	–	–	–	–	23	(2,577)	(2,554)
Recognition of equity-settled share-based payments	–	–	–	–	–	713	–	–	–	–	713	–	713
Bonus shares issued	34,436	–	(34,436)	–	–	–	–	–	–	–	–	–	–
Exercise of share options	43	–	601	–	–	–	–	–	–	–	644	–	644
Transfer upon exercise of share options	–	–	158	–	–	(158)	–	–	–	–	–	–	–
Transfer	–	–	–	–	–	–	–	19,078	–	(19,078)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(20)	(20)
Dividend paid to owners of the Company	–	–	–	–	–	–	–	–	–	(8,397)	(8,397)	–	(8,397)
At 31 December 2010	**72,351**	**610**	**745,940**	**(2,776)**	**83,777**	**555**	**4,196**	**53,013**	**5,429**	**427,663**	**1,390,758**	**53,987**	**1,444,745**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**82,402**	**82,402**	**6,107**	**88,509**
Capital contribution by non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,000**	**16,000**
Acquisition of additional interest in a subsidiary (note ii)	**–**	**–**	**–**	**–**	**1,006**	**–**	**–**	**–**	**–**	**–**	**1,006**	**(2,933)**	**(1,927)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**444**	**–**	**–**	**–**	**–**	**444**	**–**	**444**
Transfer	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,590**	**–**	**(9,590)**	**–**	**–**	**–**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Dividend paid to owners of the Company	**–**	**–**	**(33,404)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33,404)**	**–**	**(33,404)**
At 31 December 2011	**72,351**	**610**	**712,536**	**(2,776)**	**84,783**	**999**	**4,196**	**62,603**	**5,429**	**500,475**	**1,441,206**	**73,155**	**1,514,361**

Notes:

(i) During 2010, the Company acquired additional interests of 5% in 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd) ("Changdong Paper Recovery"), a subsidiary of the Group, from its non-controlling shareholders with an aggregate consideration of RMB2,500,000. Upon the completion of the transactions, the Company's interests in Changdong Paper Recovery increased from 86% to 91% accordingly.

In October 2010, the Company acquired additional interests of 1% in 昌樂彩虹包裝製品有限公司 (Changle Rainbow Packaging Products Co., Ltd.) ("Rainbow Packaging") from its non-controlling shareholder with the consideration of RMB54,000. Upon the completion of the transactions, the Company's interests in Rainbow Packaging increased from 99% to 100%.

(ii) On 20 September 2011, the Company acquired additional interests of 4.54% in Changdong Paper Recovery from one of its non-controlling shareholders with an aggregate consideration of RMB1,927,000. Upon the completion of the transactions, the Company's interests in Changdong Paper Recovery increased from 91% to 95.54% accordingly.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before tax	**115,697**	202,768
Adjustments for:		
Interest income	**(20,374)**	(23,874)
Finance costs	**258,141**	101,015
Depreciation of property, plant and equipment	**169,417**	90,464
Release of prepaid lease payments	**3,716**	2,439
Loss on disposal of property, plant and equipment	**3,261**	3,705
Allowance for inventories	**—**	123
Reversal of allowance for trade receivables	**(242)**	(522)
Release of deferred income	**(1,995)**	(2,042)
Expense recognised in profit or loss in respect of equity-settled share-based payment	**444**	713
Gain on fair value changes of derivative financial instruments	**(691)**	(710)
Loss on interest swap contract	**—**	9,824
Operating cash flows before movements in working capital	**527,374**	383,903
Increase in inventories	**(79,626)**	(145,529)
Increase in trade receivables	**(171,617)**	(52,026)
Decrease (increase) in bills receivable	**453,117**	(703,668)
Increase in prepayments and other receivables	**(100,801)**	(227,091)
(Decrease) increase in trade payables	**(556,718)**	755,925
Increase (decrease) in bills payable	**206,500**	(10,000)
Increase (decrease) in other payables	**62,974**	(2,293)
Increase in deferred income	**—**	1,400
Cash generated from operations	**341,203**	621
Income tax paid	**(49,544)**	(10,530)
Net cash used in operating activities	**291,659**	(9,909)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(385,387)**	(1,122,056)
Prepaid lease payments of land use rights	**(1,980)**	(84,808)
Proceeds on disposal of property, plant and equipment	**5,616**	5,527
Government grants received	**1,793**	1,000
Interest received	**19,851**	21,341
Increase in restricted bank deposits	**(522,784)**	(48,726)
Deposit for acquisition of property, plant and equipment	**(50,000)**	—
Net cash used in investing activities	**(932,891)**	(1,227,722)
Financing activities		
Issue of share upon exercise of share options	**—**	644
Acquisition of additional interests in a subsidiary	**(1,927)**	(2,554)
Capital contribution by non-controlling shareholders of subsidiaries	**16,000**	10,000
New borrowings raised	**2,473,312**	2,131,683
Borrowings repaid	**(2,046,812)**	(1,422,987)
Increase in discounted bill financing	**499,807**	562,129
Dividends paid to non-controlling shareholders of a subsidiary	**(6)**	(20)
Interest paid	**(267,323)**	(143,712)
Dividend paid	**(33,404)**	(8,397)
Repayment of installments under finance lease	**(47,814)**	(20,983)
Proceeds from a sale and finance lease back transaction	**50,000**	—
Advance from related parties	**22,000**	—
Net cash generated from financing activities	**663,833**	1,105,803
Net increase (decrease) in cash and cash equivalents	**22,601**	(131,828)
Cash and cash equivalents at beginning of the year	**225,677**	357,505
Cash and cash equivalents at end of the year, representing bank balances and cash	**248,278**	225,677

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 12 December 2007. In the opinion of the directors, the Company's controlling shareholder is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands) and its controlling shareholder is China Sunshine Paper Investments Limited (incorporated in the British Virgin Islands ("BVI")). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its subsidiaries operate (the functional currency of the Company and its subsidiaries).

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

2. BASIS OF PREPARATION

The Group had net current liabilities of RMB1,088,655,000 as at 31 December 2011. As stated in Note 37(d), the directors are of the opinion that, taking into account the present available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of issuance of these consolidated financial statements. Hence, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee of the IASB which are or have become effective.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity attributable to owners of the Company therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (capital reserve) and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation was initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment loss and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating unit (or groups of cash-generating units) that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Sales of electricity are recognised when electricity are generated and transmitted to the customers.

Sales of steam are recognised when steam are generated and delivered to the customers.

Deposits and installments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidation statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Connection fee income in relation to transmission of steam is recognised on a straight line basis over the expected service period of steam transmission to be rendered.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee (continued)

For sale and leaseback transaction that results in a finance lease, the Group continues to recognize the asset at its previous carrying amount. No adjustment is necessary if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset unless there has been impairment in value, in which case the carrying amount is reduced to recoverable amount.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss for the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in the People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vest period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Impairment of tangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets other than goodwill (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are all classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 45 days, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables' original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of loans and receivables (continued)

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial liabilities and equity instruments** (continued)*

Other financial liabilities

Other financial liabilities (including bank and other borrowings, discounted bill financing, trade payables, bills payable and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of inventories

The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and realisability of the inventories. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the inventories and allowance for inventories in the year in which such estimate has been changed. As at 31 December 2011, the carrying amount of inventories is approximately RMB625,107,000 (2010: RMB545,481,000).

Impairment of receivables

The Group makes allowances for and write-off of bad and doubtful debts based on an assessment of the recoverability of the receivables. Receivables may be impaired where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the receivables and doubtful debts expenses in the year in which such estimate has been changed. As at 31 December 2011, the aggregate carrying amount of trade, bills and other receivables is approximately RMB1,385,005,000 (2010: RMB1,612,732,000). Details of movements of allowance for doubtful receivables are disclosed in Note 20.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 15. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

6. REVENUE

The Group is principally engaged in production/generation and sale of paper products, electricity and steam. The Group's revenue represents the amount received and receivable for sale of paper products, electricity and steam during the current year.

7. SEGMENT INFORMATION

(a) Operating segments

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

Segment revenue and results

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

For the year ended 31 December 2011

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	1,221,544	1,511,551	600,111	273,625	114,358	3,721,189
Inter-segment revenue	–	–	–	–	483,453	483,453
Segment revenue	1,221,544	1,511,551	600,111	273,625	597,811	4,204,642
Segment profit	197,745	193,834	136,287	86,103	42,867	656,836

7. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results *(continued)*

For the year ended 31 December 2010

	Paper products						
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Sales of raw materials RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	891,472	623,808	540,087	238,008	60,666	102,499	2,456,540
Inter-segment revenue	–	–	–	–	–	302,249	302,249
Segment revenue	891,472	623,808	540,087	238,008	60,666	404,748	2,758,789
Segment profit	185,456	168,946	65,587	8,301	16,332	23,092	467,714

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 4. Segment profit represents the gross profit earned by each paper product and raw material segment and the profit before tax earned by electricity and steam segment. The Group does not allocate operating expenses and other income to each operating segment under the paper products category and does not allocate the change in fair value of derivative financial instruments to individual operating segment when making decisions about resources to be allocated to the segment and assessing its performance.

7. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

***Segment revenue and results** (continued)*

A reconciliation of the segment profit to the consolidated profit before taxation is as follows:

	2011 RMB'000	2010 RMB'000
Profit		
Segment profit	**656,836**	467,714
Unrealised profit on inter-segment sales	**(72,207)**	(36,110)
	584,629	431,604
Distribution and selling expenses	**(204,263)**	(122,143)
Administrative expenses	**(114,516)**	(103,642)
Other income, gains and losses	**76,099**	91,777
Finance cost	**(226,943)**	(85,714)
Change in fair value of derivative financial instruments	**691**	(9,114)
Consolidated profit before taxation	**115,697**	202,768

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

(b) Information about major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

(c) Geographical information

The Group's operations, assets and substantially all the customers are located in the PRC. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.

8. OTHER INCOME, GAINS AND LOSSES

	2011 RMB'000	2010 RMB'000
Exchange gain	**16,172**	11,547
Government grants (Note)	**36,609**	51,449
Interest income on bank deposits	**20,374**	23,874
Sales of scrap materials	**3,263**	2,570
Transportation service income	**62**	1,006
Compensation received	**3,967**	2,243
Loss on disposal of property, plant and equipment	**(3,261)**	(3,705)
Rental income	**1,277**	1,534
Others	**3,966**	5,352
	82,429	95,870

Note: Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the value-added tax policies on renewable resources (Cai Shui [2008] No. 157) which took effect from 1 January 2009, Changdong Paper Recovery, a subsidiary of the Group that sells recycling resources, is qualified as an ordinary value-added tax payer and is entitled to have tax refund subsequent to the payment of the value-added taxes made to the tax bureau for each of the year ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% and 50% respectively, of the value-added tax payment on recycling resources sales made by Changdong Paper Recovery in 2009 and 2010 will be refunded. Changdong Paper Recovery was entitled to tax refund of approximately RMB40,535,000 during the year ended 31 December 2010.

During the year ended 31 December 2011, Changdong Paper Recovery got unconditional government subsidy of approximately RMB20,067,000 from local government.

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest expenses on:		
Discounted bill financing	**81,108**	24,305
Bank and other borrowings wholly repayable within five years	**176,440**	122,353
Bank borrowings not wholly repayable within five years	**—**	703
Finance leases	**15,304**	5,586
	272,852	152,947
Less: Interest capitalised in construction in progress	**(14,711)**	(51,932)
	258,141	101,015

Borrowing costs capitalised during the year ended 31 December 2011 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.86% (2010: 4.96%) per annum to expenditure on construction in progress.

10. PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**107,027**	91,403
Retirement benefits schemes contributions	**10,975**	10,187
Equity-settled share-based payment	**444**	713
Total staff costs (including directors emoluments)	**118,446**	102,303
Cost of inventories recognised as an expense	**3,000,947**	1,909,855
Depreciation of property, plant and equipment	**169,417**	90,464
Reversal of allowance for trade receivables	**(242)**	(522)
Allowance for inventory	**—**	123
Release of prepaid lease payments	**3,716**	2,439
Auditor's remuneration	**1,400**	1,392

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of emoluments paid by the Group to the directors of the Company during the year are as follows:

		Other emoluments			
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Total emoluments RMB'000
2011					
Executive directors:					
Wang Dongxing	50	199	–	1,050	1,299
Shi Weixin	50	–	–	–	50
Zhang Zengguo	50	136	3	125	314
Wang Yilong	50	–	–	–	50
Non-executive directors:					
Xu Fang	50	–	–	–	50
Wang Junfeng	50	–	–	–	50
Independent non-executive directors:					
Leung Ping Shing	97	–	–	–	97
Wang Zefeng	50	–	–	–	50
Xu Ye	50	–	–	–	50
	497	335	3	1,175	2,010

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

	Other emoluments				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Total emoluments RMB'000
2010					
Executive directors:					
Wang Dongxing	50	142	—	1,190	1,382
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	69	3	177	299
Wang Yilong	50	—	—	—	50
Non-executive directors:					
Xu Fang	50	—	—	—	50
Wang Junfeng	50	—	—	—	50
Independent non-executive directors:					
Wong Wing Yee	123	—	—	—	123
Leung Ping Shing	8	—	—	—	8
Wang Zefeng	50	—	—	—	50
Xu Ye	50	—	—	—	50
	531	211	3	1,367	2,112

Note: The performance related incentive payments is determined based on the Goup's operating results, individual performance and prevailing market conditions.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, included 1 director (2010: 2 directors), details of their emoluments are set out above. The emoluments of the remaining 4 (2010: 3) individuals during the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	**1,958**	1,215
Retirement benefits schemes contributions	**13**	15
Equity-settled share-based payment	**444**	713
	2,415	1,943

The above employees' emoluments were within the following bands:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000	**4**	2
HK$1,000,001 to HK$1,500,000	**—**	1

During the current year, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the current year.

12. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax		
PRC enterprise income tax	**27,427**	25,177
Deferred tax (credit) charge (Note 18)	**(239)**	3,269
	27,188	28,446

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

Pursuant to the approval of the Jiangsu State Tax Bureau, 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), which became a foreign investment enterprise in 2006, is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in next three years. Kunshan Sunshine commenced its first profit-making year in 2008 and accordingly, the applicable income tax rate for the year ended 31 December 2011 was 12.5% (2010: 12.5%).

In 2010, 山東世紀陽光紙業集團有限公司 (Shangdong Century Sunshine Paper Group Co., Ltd.) ("Century Sunshine") is recognised as Advanced Technology Enterprise which is approved by Science Technology Bureau, Finance Bureau and State Administration of Taxation in Shandong province. Pursuant to the relevant laws and regulations in the PRC, Century Sunshine is entitled to enterprise income tax rate of 15% for three years since 2010.

No provision for Hong Kong Profit Tax has been made for the year ended 31 December 2011 and 2010 as the Group did not have any assessable profit during both years.

12. INCOME TAX EXPENSE (continued)

The charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011 **RMB'000**	2010 RMB'000
Profit before tax	**115,697**	202,768
Tax at the applicable income tax rate of 25% (2010: 25%)	**28,924**	50,692
Effect of tax incentives (Note (a))	**–**	(3,153)
Tax effect of income not taxable	**(42)**	(171)
Tax effect of expenses not deductible	**3,034**	2,144
Effect of tax concession granted to certain subsidiaries	**(5,463)**	(23,231)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries (Note (b))	**1,129**	1,909
Utilisation of tax losses previously not recognised	**(458)**	(202)
Unrecognised tax loss	**64**	458
Tax charge for the year	**27,188**	28,446

Notes:

(a) According to regulations issued by the State Administration of Taxation, the Group obtained incentives of income tax deduction for purchase of equipment manufactured domestically with an aggregate amount of approximately RMB22,446,000 from local tax authorities. As of 31 December 2010, the above tax credit has been fully utilised for the income tax deduction.

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

Details of deferred tax for the current year are set out in Note 18.

13. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends declared for distribution during the year:		
2010 final dividend — RMB0.042 per share (2010: 2009 final dividend — RMB0.021 per share)	**33,404**	8,397

A final dividend of RMB0.021 per share in respect of the year ended 31 December 2011 (2010: final dividend of RMB0.042 per share in respect of the year ended 31 December 2010), based on 802,588,000 shares (2010: 802,588,000 shares) of the Company as at 31 December 2011, in total of approximately RMB16,854,000, has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2011 RMB'000	2010 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**82,402**	169,614

14. EARNINGS PER SHARE (continued)

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**802,588,000**	802,100,329
Effect of dilutive potential ordinary shares:		
Share options	**173,912**	78,133
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**802,761,912**	802,178,462

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus issue on 23 November 2010. The computation of diluted earnings per share does not assume the exercise of certain share options as the exercise price (after adjusted for effect of unvested share-based payment) is higher than the average market price for share for 2011 and 2010.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery, and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2010	450,938	1,151,180	483,379	2,085,497
Additions	11,122	54,199	1,457,922	1,523,243
Transfers	15,177	133,647	(148,824)	—
Disposals	—	(17,811)	—	(17,811)
At 31 December 2010	477,237	1,321,215	1,792,477	3,590,929
Additions	33,458	81,527	134,229	249,214
Transfers	234,590	1,483,357	(1,717,947)	—
Disposals	—	(25,788)	—	(25,788)
At 31 December 2011	**745,285**	**2,860,311**	**208,759**	**3,814,355**
DEPRECIATION				
At 1 January 2010	34,071	154,371	—	188,442
Provided for the year	14,322	76,142	—	90,464
Eliminated on disposals	—	(6,940)	—	(6,940)
At 31 December 2010	48,393	223,573	—	271,966
Provided for the year	19,037	150,380	—	169,417
Eliminated on disposals	—	(14,055)	—	(14,055)
At 31 December 2011	**67,430**	**359,898**	**—**	**427,328**
CARRYING AMOUNT				
At 31 December 2011	**677,855**	**2,500,413**	**208,759**	**3,387,027**
At 31 December 2010	428,844	1,097,642	1,792,477	3,318,963

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Buildings	3.3–5%
Plant and machinery, and equipment	5.56–20%

Details of property, plant and equipment pledged are set out in Note 38.

The net book value of property, plant and equipment of RMB3,387,027,000 includes an amount of RMB305,783,500 (31 December 2010: RMB235,000,000) in respect of assets held under finance leases.

16. PREPAID LEASE PAYMENTS

	2011	2010
	RMB'000	RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**169,787**	171,302
Current assets	**3,465**	3,686
	173,252	174,988

The amount represents the prepayment of rentals for land use rights in the PRC under medium-term leases for 50 years.

At the end of the reporting period, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB62,683,000 (2010: RMB63,972,000). In the opinion of the directors of the Company, the Group is not required to incur significant additional cost in obtaining the land use right certificates for the land in the PRC.

Details of land use rights pledged are set out in Note 38.

17. GOODWILL

	2011 RMB'000	2010 RMB'000
COST		
At beginning and end of the year	**19,246**	19,246
IMPAIRMENT		
At beginning and end of the year	**554**	554
CARRYING AMOUNT		
At end of the year	**18,692**	18,692

For the purposes of impairment testing, goodwill as at 31 December 2011 has been allocated to an individual cash generating unit (CGU) of a subsidiary in electricity and steam segment.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 16% (2010: 13%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 6% (2010: 5%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

18. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Unrealised profit (loss) in inventories RMB'000	Allowance for doubtful debts and inventories RMB'000	Deferred income RMB'000	Tax losses RMB'000	Fair value adjustment on property, plant and equipment RMB'000	Change in fair value of derivative financial instruments RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2010	(230)	310	7,299	–	(5,782)	1,249	(1,159)	1,687
Credited (charged) to profit or loss	1,179	(265)	(2,374)	801	212	(913)	(1,909)	(3,269)
At 31 December 2010	949	45	4,925	801	(5,570)	336	(3,068)	(1,582)
Credited (charged) to profit or loss	1,362	(32)	(10)	(43)	220	(129)	(1,129)	239
At 31 December 2011	**2,311**	**13**	**4,915**	**758**	**(5,350)**	**207**	**(4,197)**	**(1,343)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011 RMB'000	2010 RMB'000
Deferred tax assets	**8,540**	7,598
Deferred tax liabilities	**(9,883)**	(9,180)
	(1,343)	(1,582)

18. DEFERRED TAXATION (continued)

At the end of the reporting period, the Group has unused tax losses of RMB3,288,000 (31 December 2010: RMB3,204,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB3,032,000 (31 December 2010: RMB3,204,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB256,000 (31 December 2010: RMB1,832,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB256,000 (31 December 2010: RMB1,832,000) that will expire in 2016.

19. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Raw materials	**377,888**	393,071
Finished goods	**247,219**	152,410
	625,107	545,481

Details of inventories pledged are set out in Note 38.

20. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2011 **RMB'000**	2010 RMB'000
Trade receivables due from:		
— Third parties	**359,038**	184,231
— Related parties (Note 41(b))	**3,288**	6,236
	362,326	190,467

20. TRADE RECEIVABLES (continued)

Included in the balance of trade receivables above, approximately RMB172,384,000 at 31 December 2011 (2010: RMB126,000,000) was pledged to banks to secure banking facilities granted to the Group (see Note 38).

The Group normally allows a credit period of 30 to 45 days to its trade customers with trading history, otherwise sales on cash terms are required. The Group's sales to related parties are entered into on the same credit terms of sales to other customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	2011 **RMB'000**	2010 RMB'000
0–30 days	**298,702**	139,171
31–90 days	**44,988**	39,612
91–365 days	**16,961**	9,510
Over 1 year	**1,675**	2,174
	362,326	190,467

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defines credit limits by customer.

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB32,799,000 (2010: RMB17,495,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers and the Group considers that these balances are not impaired. The Group does not hold any collateral over these balances.

20. TRADE RECEIVABLES (continued)

Aging of trade receivables which are past due but not impaired:

	2011 RMB'000	2010 RMB'000
31–90 days	**14,163**	5,811
91–365 days	**16,961**	9,510
Over 1 year	**1,675**	2,174
	32,799	17,495

The directors of the Company are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired at the end of each reporting period is of good quality.

The following are the movements of allowance for trade receivables during the year:

	RMB'000
At 1 January 2010	842
Reversed during the year	(522)
At 31 December 2010	320
Reversed during the year	(242)
At 31 December 2011	78

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors considered that the Group has no significant concentration of credit risk of trade receivables, with exposure spread over a number of customers.

21. BILLS RECEIVABLE

	2011 RMB'000	2010 RMB'000
Bills receivable	**783,666**	1,236,783

Included in the balance of bills receivable above, approximately RMB157,495,000 at 31 December 2011 (2010: Nil) was pledged to banks to secure banking facilities granted to the Group (see Note 38).

During the year, the Group has discounted bills receivable of RMB226,442,000 (2010: RMB119,735,000) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as discounted bill financing (see Notes 30 and 38).

Bills receivable of approximately RMB139,072,000 (2010: RMB859,826,000) was endorsed with recourse to third parties at 31 December 2011 and corresponding trade payables of RMB139,072,000 (2010: RMB859,826,000) were included in the consolidated statement of financial position accordingly.

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

	2011 RMB'000	2010 RMB'000
0–90 days	**475,402**	409,054
91–180 days	**308,264**	827,729
	783,666	1,236,783

22. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of deposits, prepayments and other receivables is as follows:

	2011	2010
	RMB'000	RMB'000
Prepayments to suppliers	**145,624**	98,215
Other receivables	**239,013**	185,482
Prepayments	**–**	139
	384,637	283,836

An analysis of other receivables is as follows:

	2011	2010
	RMB'000	RMB'000
Value-added tax refund	**–**	16,603
Value-added tax recoverable	**213,869**	159,117
Deposit	**13,929**	4,796
Advance to employees	**6,561**	3,582
Interest receivable	**510**	168
Others	**4,144**	1,216
	239,013	185,482

23. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank deposits represent the Group's short-term bank deposits pledged to banks to secure certain bills facilities and short-term bank borrowings granted to the Group.

The restricted bank deposits carry interest at market rates which range from 0.5% to 3.5% (2010: from 0.36% to 2.75%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

23. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH (continued)

Bank balances carry market interest rate of 0.5% per annum as at 31 December 2011 (2010: 0.36% per annum).

Bank balances and cash at 31 December 2011 were mainly denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

24. TRADE PAYABLES

An analysis of trade payables is as follows:

	2011	2010
	RMB'000	RMB'000
Trade payables to third parties	**551,362**	1,110,936

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

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

	2011	2010
	RMB'000	RMB'000
0–90 days	**352,358**	432,730
91–365 days	**155,662**	640,698
Over 1 year	**43,342**	37,508
	551,362	1,110,936

25. BILLS PAYABLE

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

	2011 **RMB'000**	2010 RMB'000
0–90 days	**146,500**	—
91–180 days	**60,000**	—
	206,500	—

All the bills payable are of trading nature and will be expired within six months from the issue date.

26. OTHER PAYABLES

An analysis of other payables is as follows:

	2011 **RMB'000**	2010 RMB'000
Other payables due to:		
— Third parties	**158,011**	92,672
— Related parties (Note 41(b))	**22,000**	—
	180,011	92,672

26. OTHER PAYABLES (continued)

	2011 RMB'000	2010 RMB'000
Other payables	**74,315**	20,041
Advance from customers	**73,355**	59,530
Accrued payroll and welfare	**607**	405
Other tax payable	**29,369**	11,295
Interest payable	**2,365**	1,401
	180,011	92,672

27. OBLIGATIONS UNDER FINANCE LEASE

The Group had leased certain machinery for a term of 5 years with a transfer of ownership upon the end of the lease period. These were recognised as finance leases.

During the year ended 31 December 2011, the Group has entered into one sale and leaseback transaction with an independent third party by way of sale and leasing back of certain machineries with sale proceeds of RMB50,000,000. In accordance with the lease agreement, the term of the lease was 5 years and the Group has the option to purchase the assets at a nominal consideration upon the end of the lease term. Such transaction was considered as sale and leaseback arrangement resulting in a finance lease.

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**53,624**	42,214
Non-current liabilities	**170,656**	177,389
	224,280	219,603

27. OBLIGATIONS UNDER FINANCE LEASE (continued)

Interest rates underlying all obligations under finance leases are floating rates based on the borrowing rates announced by the People's Bank of China.

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**67,674**	55,045	**53,624**	42,214
In more than one year but not more than two years	**67,674**	55,045	**57,488**	44,997
In more than two years but not more than five years	**121,192**	144,150	**113,168**	132,392
	256,540	254,240	**224,280**	219,603
Less: future finance charges	**(32,260)**	(34,637)	**N/A**	N/A
Present value of lease obligations	**224,280**	219,603	**224,280**	219,603
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(53,624)**	(42,214)
Amount due for settlement after 12 months			**170,656**	177,389

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

28. DEFERRED INCOME

Deferred income represents the connection fee income not yet recognised in relation to steam transmission services, the value-added tax refund obtained for the purchase of domestically manufactured equipment and the government grant obtained in relation to the acquisition of land use right.

	Connection fee	**Value-added tax refund**	**Government grant related to land use right**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	3,027	24,624	1,559	29,210
Additions	1,400	—	1,000	2,400
Released to income	(497)	(1,512)	(33)	(2,042)
At 31 December 2010	3,930	23,112	2,526	29,568
Additions	—	—	1,793	1,793
Released to income	(381)	(1,512)	(102)	(1,995)
At 31 December 2011	**3,549**	**21,600**	**4,217**	**29,366**

The following is the analysis of the deferred income balances for financial reporting purposes:

	2011	2010
	RMB'000	RMB'000
Current portion	**1,995**	2,073
Non-current portion	**27,371**	27,495
	29,366	29,568

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 RMB'000	2010 RMB'000
Liabilities		
Foreign currency forward contracts (note i)	**231**	458
Interest rate swaps (note ii)	**1,149**	1,784
	1,380	2,242

Notes:

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

At 31 December 2011, the US dollar loans of RMB24,124,000 (31 December 2010: RMB20,463,000) and fixed deposits denominated in Renminbi of RMB25,990,000 (31 December 2010: RMB22,890,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the year ended 31 December 2011, interest income on the fixed deposits of RMB477,000 (31 December 2010: RMB168,000), exchange gain on US dollar loans of RMB742,000 (31 December 2010: exchange gain of RMB335,000) are included in profit or loss, while the interest expenses on US dollar loans of RMB588,000 (31 December 2010: RMB217,000) are included in finance cost as disclosed in Note 9.

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

Aggregate principal amount	Maturity	Forward exchange rate
2011		
US$3,828,690.79	From January 2012 to September 2012	Buy US$/sell RMB at 6.3050 to 6.5330
2010		
US$3,089,858.42	From July 2011 to November 2011	Buy US$/sell RMB at 6.5521 to 6.7377

At 31 December 2011, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB231,000 (31 December 2010: RMB458,000). The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were provided by the counterparty financial institutions at the end of the reporting period. The gain on change in fair value of the foreign currency forward contracts amounting to RMB56,000 (year ended 31 December 2010: gain on change in fair value of RMB1,497,000) has been recognised in the profit or loss for the year.

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

The US dollar loans are of fixed interest rates ranging from 3.06% to 4.72% (2010: from 3.06% to 3.48%) per annum as at 31 December 2011.

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

2011 and 2010

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

The contract is measured at fair value at the end of each reporting year. Its fair value is determined based on the valuation provided by the relevant financial institution at the end of the reporting period. The fair value of interest rate swap contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract at the end of the reporting year. The gain on change in fair value of the interest rate swap contracts amounting to RMB635,000 (2010: loss amounting to RMB787,000) has been recognised in the profit or loss for the year.

30. DISCOUNTED BILL FINANCING

	2011 **RMB'000**	2010 RMB'000
Discounted bill financing	**1,188,542**	688,735
Comprising:		
Discounted bill receivable from third party	**226,442**	119,735
Discounted bill receivable from subsidiaries of the Group	**962,100**	569,000
Total	**1,188,542**	688,735

Discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse. Bank deposits of RMB671,800,000 (2010: RMB296,900,000) were pledged by the subsidiaries to the banks for bank bills issued.

31. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured bank borrowings	**2,572,392**	2,277,991
Unsecured bank borrowings	**329,184**	196,764
	2,901,576	2,474,755
The borrowings are repayable as follows:		
Within one year	**2,078,456**	1,419,074
In the second year	**215,807**	267,982
In the third to fifth year inclusive	**607,313**	771,143
Over five years	**—**	16,556
	2,901,576	2,474,755
Less: Amount due for settlement within one year and shown under current liabilities	**(2,078,456)**	(1,419,074)
Amount due after one year	**823,120**	1,055,681
Total borrowings		
— At fixed rates	**712,612**	1,115,149
— At floating rates	**2,188,964**	1,359,606
	2,901,576	2,474,755
Analysis of borrowings by currency:		
— Denominated in RMB	**2,609,776**	2,155,627
— Denominated in United States dollars	**291,800**	319,128
	2,901,576	2,474,755

Fixed-rate borrowings are charged at the rates ranging from 2% to 10% per annum as at 31 December 2011 (2010: 0.91% to 8.02% per annum).

31. BANK BORROWINGS (continued)

Interest on RMB borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China whereas interests on United States dollars borrowings at floating rates are charged at 3.1% to 3.5% over LIBOR (2010: 3.1% to 3.5% over LIBOR).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2011 was 6.25% per annum (2010: 4.8% per annum).

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 38.

32. OTHER BORROWINGS

	2011 **RMB'000**	2010 RMB'000
Borrowings from Weifang City Investment Co., Ltd. (濰坊市投資有限公司) ("Weifang Investment")	**14,000**	14,000

Other borrowings are unsecured and payable within one year. The interest is charged at the prevailing borrowing rate announced by the People's Bank of China.

The effective weighted average annual rate for the year ended 31 December 2011 was 6.56% per annum (2010: 6.83% per annum).

33. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 31 December 2010 and 31 December 2011	1,000,000,000	100,000

	Notes	Number of shares	Share capital	
				Shown in the consolidated financial statements
			HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2010		401,044,000	40,104	37,872
Bonus share issued	(i)	401,044,000	40,104	34,436
Exercise of share options	(ii)	500,000	50	43
At 31 December 2010 and 31 December 2011		**802,588,000**	**80,258**	**72,351**

Notes:

(i) 401,044,000 bonus shares were allotted and issued for the ordinary shares held by the then existing shareholders on the basis of ten bonus shares for ten ordinary shares in issue which were approved by the shareholders at the extraordinary general meeting of the Company held on 23 November 2010.

(ii) 500,000 new ordinary shares were allotted and issued at HK$1.505 per share upon the exercise of share options on 23 December 2010.

34. RESERVES

Merger reserve

The merger reserve of the Company represents the difference between the consideration of the subsidiary acquired by the Group and the nominal amount of the Company's shares issued under the group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's share on the Stock Exchange.

Capital reserve

Capital reserve includes the contribution from owners of the Company as the result of debts waived by owners of the Company, discount on acquisition of subsidiaries from owners of the Company and debit reserve of acquisition of additional interest in subsidiaries from owners of the Company.

The capital reserve, other than those arising from acquisition of subsidiaries from owners and acquisition of additional interests in subsidiaries of the Company that were established and operated in PRC (the "PRC Companies"), may be applied for conversion into capital.

Assets revaluation reserve

Assets revaluation reserve arises on the fair value adjustment in respect of the interests previously held by the Group, arising on acquisition of 昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd) ("Shengshi Thermoelectricity").

Statutory surplus reserve/discretionary surplus reserve

In accordance with relevant PRC Company laws and regulations, the PRC Companies are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the accounting rules and regulations of PRC (the "PRC GAAP") to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC Companies' registered capital. Allocation to the discretionary surplus reserve shall be approved by the shareholders in general meeting.

Both surplus reserves may be used to make up losses or for conversion into capital. The PRC Companies may, upon the approval by a resolution of shareholders' general meeting, convert its surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC Companies' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

35. SHARE-BASED PAYMENT TRANSACTION

Pursuant to a resolution in writing passed on 19 November 2007 by all shareholders of the Company, a share option scheme ("Share Option Scheme") has been adopted by the Company which would be applicable to grant of share options after the Company's listing on the Main Board of the Stock Exchange on 12 December 2007.

Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 19 November 2007, the board of the directors may, at its absolute discretion, offer any employee, director, consultant or advisor of the Company, its subsidiaries, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise of the share option will be determined at the highest of (1) the nominal value of a share; (2) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (3) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

On 8 April 2010, the Company granted options to an employee to subscribe for 1,600,000 shares in the Company at an exercise price of HK$3.01 (HK$1.505 after Bonus issue) per share under its share option scheme adopted on 19 November 2007.

35. SHARE-BASED PAYMENT TRANSACTION (continued)

Share Option Scheme (continued)

Details of the share option scheme are as follows:

Date of grant	Vesting period	Exercise period	Maximum number of options exercisable (before Bonus Issue)	Maximum number of options exercisable (after Bonus Issue)	Life of options
8 April 2010	8 April 2010 to 30 June 2010	1 July 2010 to 31 December 2011	400,000	800,000	1.73 years
8 April 2010	8 April 2010 to 30 June 2011	1 July 2011 to 31 December 2012	400,000	800,000	2.73 years
8 April 2010	8 April 2010 to 30 June 2012	1 July 2012 to 31 December 2013	400,000	800,000	3.73 years
8 April 2010	8 April 2010 to 30 June 2013	1 July 2013 to 31 December 2014	400,000	800,000	4.73 years

35. SHARE-BASED PAYMENT TRANSACTION (continued)

Share Option Scheme (continued)

The following share options were outstanding under the Share Option Scheme during the year:

	Exercise price HK$ per shares	Number of options
At 1 January 2010	**—**	—
Granted during the year	**3.010**	1,600,000
Adjusted upon issue of bonus shares	**1.505**	1,600,000
Exercised during the year	**1.505**	(500,000)
At 31 December 2010	**1.505**	2,700,000
Expired during the year		(300,000)
At 31 December 2011	**1.505**	2,400,000
Exercisable at 31 December 2011	**1.505**	800,000

In respect of the share options exercised during the year ended 31 December 2010, the share price at the date of exercise is HK Dollars 2.33.

The purpose of the share option scheme is to recognise and reward the participant's contribution to the growth and development of the Group.

The fair value of the options determined at the date of grant using the Black-Scholes Model was approximately HK$1,724,000 (equivalent to approximately RMB1,511,000).

35. SHARE-BASED PAYMENT TRANSACTION (continued)

Share Option Scheme (continued)

The Black-Scholes Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	At 8 April 2010
Grant date share price	HK$3.00
Exercise price	HK$3.01
Expected life	0.75 years to 3.75 years
Expected volatility	59.456%, 69.93%, and 67.87%
Dividend yield	0.88%
Risk-free interest rate	0.722%-1.997%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years.

The Group recognised an expense of RMB444,000 for the year ended 31 December 2011 (2010: RMB713,000) in relation to share options granted by the Company.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the obligations under finance leases, discounted bill financing, bank borrowings and other borrowings disclosed in Notes 27, 30, 31 and 32 and equity attributable to owner of the Company, comprising issued share capital and reserves.

36. CAPITAL RISK MANAGEMENT (continued)

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables	**2,340,956**	2,075,376
Financial liabilities		
Liabilities at amortised cost	**5,095,427**	4,617,317
Obligation under finance lease	**224,280**	219,603
Derivative financial instruments	**1,380**	2,242

(b) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management

PRC subsidiaries of the Group with functional currency of RMB have certain foreign currency sales, purchases, bank balances and cash and bank borrowings denominated in US Dollar, Hong Kong Dollar and EURO, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities, excluding foreign currency forward contracts and bank borrowings denominated in US Dollar as disclosed in note 29, at the end of the reporting period are as follows:

	2011 **RMB'000**	2010 RMB'000
Assets		
US Dollar		
Bank balances and cash	**27,258**	18,613
Trade receivables	**3,077**	509
Hong Kong Dollar		
Bank balances and cash	**5,367**	1,189
Other receivables	**—**	183
EURO		
Bank balances and cash	**2,378**	2,907
Trade receivables	**124**	—

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) *Foreign currency risk management* (continued)

	2011	2010
	RMB'000	RMB'000
Liabilities		
US Dollar		
Trade payables	**88,611**	122,686
Bank borrowings	**267,676**	298,665
Other payables	**65**	—
Hong Kong Dollar		
Other payables	**—**	548
EURO		
Trade payables	**272**	—

As disclosed in Note 29, the principal amounts and maturity terms of the foreign currency loans and forward contracts are similar, and the net exchange gain or loss arising from these instruments is not significant. Accordingly, the management decided to exclude in its consideration of the currency risk analysis.

Sensitivity analysis

The Group is mainly exposed to the fluctuation in US Dollar, Hong Kong Dollar, and EURO against RMB.

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items excluding interest rate swap contracts, certain foreign currency loans and the relevant foreign exchange forward contracts as disclosed above and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	Impact of US Dollar		Impact of Hong Kong Dollar		Impact of EURO	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(a)	(a)	**(b)**	(b)	**(c)**	(c)
Increase (decrease) in profit for the year	**16,301**	20,112	**(268)**	(41)	**(112)**	(145)

a. This is mainly attributable to the exposure outstanding on receivables, bank balances, payables and bank borrowings denominated in US Dollar at the end of the reporting period.

b. This is mainly attributable to the exposure to bank balances and cash, other payables and other receivables denominated in Hong Kong Dollar at the end of the reporting period.

c. This is mainly attributable to the exposure outstanding on trade receivables, bank balances and cash and trade payables denominated in EURO not subject to cash flows hedged at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings and discounted bill financing subject to negotiation on annual basis (see Notes 30 and 31 for details of these discounted bill financing and borrowings). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see Notes 31 and 32 for details of these borrowings), finance lease obligations (see Note 27), restricted bank deposits and bank balances and cash (see Note 23).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank and other borrowings and obligation under finance leases, restricted bank deposits, bank balances and cash, the analysis is prepared assuming the amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 14 basis points (2010: 14 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 14 basis points (2010: 14 basis points) and all other variables were held constant, the Group's profit would decrease (increase) by approximately RMB1,741,000 for the year ended 31 December 2011 (2010: RMB1,309,000).

37. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, bank balances and restricted bank deposits. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC and Hong Kong.

(d) Liquidity risk management

The responsibility for liquidity risk management rests with the management, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities from time to time.

37. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

As at 31 December 2011, the Group had net current liabilities of approximately RMB1,088,655,000. In respect of the short-term fund requirement, the management has carried out a detailed and careful review of the cash flow projection of the Group for the next twelve months from end of the reporting period. Based on the projection, accompanied with the banking facilities available and renewal of the existing banking facilities upon expiry during the period, the management have considered that the Group has adequate funding exists to finance the working capital and capital expenditure requirements of the Group in next twelve months.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group had available unutilised short-term bank loan facilities of approximately RMB1,191,283,000 (2010: RMB1,154,678,000). Currently and up to the date of report, the management are in negotiation with certain banks to obtain the medium-term borrowings to enhance the liquidity management of the Group.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

37. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

	Weighted average interest rate	On demand	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	**6.05**	**–**	**473,645**	**238,308**	**1,188**	**20,297**	**–**	**733,438**	**712,612**
Variable-rate bank borrowings	**6.47**	**–**	**737,929**	**755,875**	**259,778**	**650,547**	**–**	**2,404,129**	**2,188,964**
Other borrowings	**6.56**	**–**	**459**	**14,459**	**–**	**–**	**–**	**14,918**	**14,000**
Bills payables		**–**	**206,500**	**–**	**–**	**–**	**–**	**206,500**	**206,500**
Trade payables		**352,359**	**199,003**	**–**	**–**	**–**	**–**	**551,362**	**551,362**
Other payables		**77,287**	**–**	**–**	**–**	**–**	**–**	**77,287**	**77,287**
Payable for construction work		**156,160**	**–**	**–**	**–**	**–**	**–**	**156,160**	**156,160**
Discounted bill financing		**–**	**1,188,542**	**–**	**–**	**–**	**–**	**1,188,542**	**1,188,542**
Obligations under finance lease	**7.02**	**–**	**33,837**	**33,837**	**67,674**	**121,192**	**–**	**256,540**	**224,280**
		585,806	**2,839,915**	**1,042,479**	**328,640**	**792,036**	**–**	**5,588,876**	**5,319,707**
Derivatives – net settlement									
Interest rate swaps		**–**	**–**	**–**	**–**	**1,149**	**–**	**1,149**	**1,149**
Foreign exchange forward contracts		**–**	**231**	**–**	**–**	**–**	**–**	**231**	**231**
		–	**231**	**–**	**–**	**1,149**	**–**	**1,380**	**1,380**
At 31 December 2010									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	4.67	–	537,071	581,037	20,244	–	–	1,138,352	1,115,149
Variable-rate bank borrowings	5.37	–	110,413	280,778	298,089	877,374	16,908	1,583,562	1,359,606
Other borrowings	6.83	–	478	14,478	–	–	–	14,956	14,000
Trade payables		465,417	645,519	–	–	–	–	1,110,936	1,110,936
Other payables		21,847	–	–	–	–	–	21,847	21,847
Payable for construction work		307,044	–	–	–	–	–	307,044	307,044
Discounted bill financing		–	688,735	–	–	–	–	688,735	688,735
Obligations under finance lease	6.40	–	27,522	27,523	55,045	144,150	–	254,240	219,603
		794,308	2,009,738	903,816	373,378	1,021,524	16,908	5,119,672	4,836,920
Derivatives – net settlement									
Interest rate swaps		–	–	–	–	1,784	–	1,784	1,784
Foreign exchange forward contracts		–	218	240	–	–	–	458	458
		–	218	240	–	1,784	–	2,242	2,242

Notes: The contractual payments in respect of variable-rate bank borrowings and other borrowings are calculated based on the outstanding market rates as at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Included in above, discounted bill financing with carrying amount of approximately RMB226,442,000 (2010:119,735,000) will be offset with corresponding bills receivable upon maturity.

(e) Fair value

The fair value of the Group's financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of derivative instruments is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Foreign currency forward contracts and interest rate swap contracts held at 31 December 2011 and 2010 are measured using level 2 fair value measurements which are derived from inputs other than quoted prices in active market, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

38. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period is as follows:

	2011 RMB'000	2010 RMB'000
Buildings	**165,277**	220,015
Plant, machinery and equipment	**633,138**	665,696
Prepaid lease payments	**119,438**	120,361
Inventories	**178,055**	101,827
Trade receivables	**172,384**	126,000
Bills receivable	**383,937**	119,735
Restricted bank deposits	**935,471**	412,687
	2,587,700	1,766,321

39. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**200,960**	369,662

40. OPERATING LEASES

The Group as lessee

	2011 RMB'000	2010 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	**426**	493

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**115**	233
In the second to fifth year inclusive	**218**	—
	333	233

The Group as lessor

Property rental income earned during the year was RMB1,277,000 (2010: RMB1,534,000). All of the properties held have committed tenants for the next 5 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011 RMB'000	2010 RMB'000
Within one year	**1,505**	586
In the second to fifth year inclusive	**1,406**	926
	2,911	1,512

41. RELATED PARTY TRANSACTIONS

(a) The Group has entered into the following significant transactions with its related parties during the year:

	2011 RMB'000	2010 RMB'000
Sales of goods to a non-controlling shareholder of a subsidiary	**102,497**	93,825

(b) Balances with related parties

	2011 RMB'000	2010 RMB'000
Trade receivable from a non-controlling shareholder of a subsidiary	**3,288**	6,236
Other payables		
— A non-controlling shareholder of a subsidiary	**2,000**	—
— A company controlled by a director of the Company	**20,000**	—

The amount due to a company controlled by a director of the Company of RMB20,000,000 has been settled in cash in March 2012.

41. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Short term employee benefit	**5,270**	4,220
Retirement benefit scheme contributions	**19**	20
Equity-settled share-based payment	**444**	713
	5,733	4,953

42. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 18% to 20% of the employee's basic salaries during the year.

43. PARTICULARS OF SUBSIDIARIES

The particulars of subsidiaries of the Company as at the end of the reporting period are set out as follows:

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held by the Company 2011	2010	Principal activity
Directly held						
China Sunshine Paper Group Limited 中國陽光紙業集團有限公司	Private limited company	British Virgin Islands	USD1	**100.00%**	100.00%	Investment holding
Indirectly held						
China Ramble Paper Company Limited 中國遠博紙業集團有限公司	Private limited company	Hong Kong	HKD1	**100.00%**	100.00%	Investment holding
Hong Kong Hao Mai Trading Co., Ltd. 香港豪邁貿易有限公司	Private limited company	Hong Kong	HKD1,000	**100.00%**	100.00%	Trading
Century Sunshine Paper (USA) Inc. 世紀陽光紙業美國公司	Private limited company	United States of America	–	**100.00%**	100.00%	Trading
山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.)	Sino-foreign equity joint venture	PRC	USD111,732,800	**99.90%**	99.90%	Manufacture of paper products
昌樂新邁紙業有限公司 (Changle Numat Paper Industry Co., Ltd.)	Private limited company	PRC	RMB500,000,000	**100.00%**	100.00%	Manufacture of paper products

43. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held by the Company 2011	2010	Principal activity
Indirectly held (continued)						
昌樂彩虹包裝製品有限公司 (Changle Rainbow Packaging Products Co., Ltd.)	Private limited company	PRC	RMB5,400,000	**100.00%**	100.00%	Manufacture of paper products
昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.)	Sino-foreign equity joint venture	PRC	USD2,495,000	**100.00%**	100.00%	Manufacture of paper products
昌樂昌東廢紙收購有限責任公司 (Changle Changdong Waste Paper Recovery Co., Ltd.)	Private limited company	PRC	RMB46,500,000	**95.54%**	91.00%	Waste paper trading
青島東森再生紙有限公司 (Qingdao Dongsen Recycle Paper Co., Ltd.)	Private limited company	PRC	RMB1,000,000	**100.00%**	100.00%	Waste paper trading
濰坊申易物流有限公司 (Weifang Shenyi Logistic Co., Ltd.)	Private limited company	PRC	RMB23,320,000	**100.00%**	100.00%	Provision for transportation services
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.)	Private limited company	PRC	RMB219,250,000	**80.00%**	80.00%	Generation and supply of electricity and steam
昆山陽光華邁包裝製品有限公司 (Kunshan Sunshine Huamai Packaging Co., Ltd.)	Private limited company	PRC	RMB15,363,000	**100.00%**	100.00%	Manufacture of paper products

Note: None of the subsidiaries had issued any debt securities at the end of the year.

44. SUBSEQUENT EVENTS

On 8 December 2011, the Company has successfully won an auction at a price of approximately RMB203 million, which was an open auction for the assets that included land use rights, buildings and production facilities (the "Assets") of Arjowiggins Chenming Speciality Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司), a sino-foreign Equity Joint Venture in the PRC ("Arjowiggins Chenming"). As of 31 December 2011, the Company has paid an aggregate of RMB50 million as part of the consideration for the successful bid which is included as non-current assets.

As of the date of issuance of these consolidated financial statements, the Company is in discussion with several independent third parties on the possible establishment of a joint venture in the PRC to operate the Assets, but details of such plan have not been finalised.

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011	2010
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**3**	4
Interests in subsidiaries	**462,824**	283,467
Amount due from subsidiaries	**607,897**	787,267
	1,070,724	1,070,738
CURRENT ASSETS		
Prepayments and other receivables	**198**	152
Amount due from subsidiaries	**2,981**	36,936
Bank balances and cash	**5,378**	2,726
	8,557	39,813
CURRENT LIABILITIES		
Other payables	**–**	548
Amounts due to subsidiaries	**4,252**	4,252
	4,252	4,800
NET CURRENT ASSETS	**4,305**	35,013
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,075,029**	1,105,751
CAPITAL AND RESERVES		
Share capital	**72,351**	72,351
Reserves	**1,002,678**	1,033,400
TOTAL EQUITY	**1,075,029**	1,105,751

Financial Summary

	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**3,721,189**	2,456,540	1,697,678	1,764,552	1,411,681
Profit before taxation	**115,697**	202,768	58,289	64,717	145,562
Taxation	**(27,188)**	(28,446)	(10,826)	1,471	(8,292)
Minority interests	**(6,107)**	(4,708)	(5,316)	(1,832)	(4,269)
Profit attributable to shareholders	**82,402**	169,614	42,147	64,356	133,001
Assets					
Non-current assets	**3,634,046**	3,516,555	2,016,307	1,619,887	999,696
Current assets	**3,344,158**	2,898,617	1,851,289	1,243,680	1,392,854
Total assets	**6,978,204**	6,415,172	3,867,596	2,863,567	2,392,550
Liabilities					
Non-current liabilities	**1,031,030**	1,269,745	645,909	193,742	157,929
Current liabilities	**4,432,813**	3,700,682	1,951,650	1,434,356	1,096,466
Total liabilities	**5,463,843**	4,970,427	2,597,559	1,628,098	1,254,395
Equity and reserves					
Total equity	**1,514,361**	1,444,745	1,270,037	1,235,469	1,138,155
Minority interests	**(73,155)**	(53,987)	(41,876)	(31,205)	(37,535)
Equity attributable to owners of the Company	**1,441,206**	1,390,758	1,228,161	1,204,264	1,100,620

Notes:

1. *The Company was incorporated on 22 August 2007 in the Cayman Islands and became the holding company of the Group with effect from 15 October 2007 upon the completion of a group reorganization as set out in the Prospectus.*