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CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2002)

ANNOUNCEMENT OF RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

Revenue increased by 13.4%, from RMB3,725.8 million for FY2015 to RMB4,223.3 million for FY2016.

Gross profit margin for FY2016 was 19.6%, representing a 0.4 percentage point decrease as compared to that of 20.0% for FY2015.

Profit for the year attributable to the owners of the Company for FY2016 was RMB123.1 million, as compared to that of RMB51.3 million for FY2015.

A final dividend of HK4 cents per ordinary share was proposed by the Board.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Sunshine Paper Holdings Company Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the financial year ended 31 December 2016. These financial results have been reviewed by the audit committee of the Company, approved by the Board and agreed by the Group’s auditor, Grant Thornton Hong Kong Limited.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

		2016	2015
	Notes	RMB'000	RMB'000
Revenue	5 & 6	4,223,298	3,725,808
Cost of sales		(3,396,328)	(2,980,032)
Gross profit		826,970	745,776
Other income	7	121,378	91,187
Other gains or losses	7	(28,229)	(5,345)
Distribution and selling expenses		(277,836)	(263,652)
Administrative expenses		(191,212)	(166,544)
Change in fair value of an investment property		(4,516)	(15,945)
Share of loss of a joint venture		(12,533)	(23,258)
Finance costs	8	(248,707)	(291,421)
Profit before income tax		185,315	70,798
Income tax expense	9	(58,756)	(14,624)
Profit and total comprehensive income for the year	10	126,559	56,174
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		123,111	51,258
Non-controlling interests		3,448	4,916
		126,559	56,174
Earnings per share for profit attributable to the owners of the Company during the year			
Basic and diluted (RMB)	12	0.15	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		3,353,933	3,338,282
Investment property		181,712	185,522
Prepaid lease payments		313,806	282,914
Goodwill		18,692	18,692
Deferred tax assets		8,184	6,108
Interest in a joint venture		70,847	83,380
Available-for-sale financial assets		8,000	—
Deposits and other receivables	<i>13</i>	366,407	249,945
		4,321,581	4,164,843
Current assets			
Prepaid lease payments		5,889	4,922
Inventories	<i>14</i>	345,246	375,055
Trade receivables	<i>15</i>	310,472	416,091
Bills receivable	<i>16</i>	532,016	347,549
Prepayments and other receivables	<i>17</i>	178,701	293,707
Restricted bank deposits		1,445,592	1,506,512
Bank balances and cash		592,175	326,865
		3,410,091	3,270,701
Assets classified as held for sale		—	59,944
		3,410,091	3,330,645
Current liabilities			
Trade payables	<i>18</i>	936,017	778,830
Bills payable	<i>19</i>	225,000	174,000
Other payables	<i>20</i>	214,240	135,878
Payable for construction work, machinery and equipment		15,047	8,703
Income tax payable		22,047	2,134
Obligations under finance leases		88,510	69,828
Deferred income		2,758	1,655
Discounted bill financing	<i>21</i>	1,989,892	2,010,129
Bank borrowings	<i>22</i>	1,769,150	1,870,430
Other borrowing	<i>23</i>	11,000	12,500
Corporate bond	<i>24</i>	100,000	—
		5,373,661	5,064,087
Liabilities directly associated with assets classified as held for sale		—	6,796
		5,373,661	5,070,883
Net current liabilities		(1,963,570)	(1,740,238)
Total assets less current liabilities		2,358,011	2,424,605

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Capital and reserves			
Share capital	25	72,351	72,351
Reserves		<u>1,543,704</u>	<u>1,441,172</u>
Equity attributable to owners of the Company		1,616,055	1,513,523
Non-controlling interests		<u>151,898</u>	<u>105,097</u>
Total equity		<u>1,767,953</u>	<u>1,618,620</u>
Non-current liabilities			
Obligations under finance leases		94,774	72,740
Bank borrowings	22	65,000	199,900
Corporate bond	24	396,250	495,179
Deferred income		21,045	23,828
Deferred tax liabilities		<u>12,989</u>	<u>14,338</u>
		<u>590,058</u>	<u>805,985</u>
Total equity and non-current liabilities		<u>2,358,011</u>	<u>2,424,605</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is a 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 of the Company (the “**Directors**”), the Company’s controlling shareholder is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands), whose controlling shareholder is China Sunshine Paper Investments Limited (incorporated in the British Virgin Islands (“**BVI**”)).

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. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

In the current year, the Group has applied for the first time, all amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”), which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2016. The adoption of these new standards had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group. The Directors are in the process of making an assessment of the impact of these IFRSs on the consolidated financial statements of the Group in their initial application.

3. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB.

The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

A summary of the significant accounting policies adopted by the Group is set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

4. BASIS OF PREPARATION

These annual consolidated financial statements have been prepared on the historical cost basis except for an investment property which is measured at fair value. Non-current assets and disposal group held for sale are stated the lower of carrying amount and fair value less costs to sell.

The Group has net current liabilities of approximately RMB1,963,570,000 at 31 December 2016. The Directors have evaluated the relevant available information and key assumptions used in the cash flow projections for the twelve months since the reporting date. In addition, although most of the existing bank facilities will expire in 2017, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional borrowing facilities as necessary. Therefore, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by the banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

5. 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 year.

6. 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. Each of the operating segment represents a reportable segment of the Group.

For the year ended 31 December 2016

	Paper products				Electricity and steam RMB'000	Total RMB'000
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000		
Revenue from external customers	1,196,996	1,755,488	514,614	585,605	170,595	4,223,298
Inter-segment revenue	—	—	—	—	323,026	323,026
Segment revenue	<u>1,196,996</u>	<u>1,755,488</u>	<u>514,614</u>	<u>585,605</u>	<u>493,621</u>	<u>4,546,324</u>
Segment profit	<u>206,652</u>	<u>424,885</u>	<u>90,810</u>	<u>87,624</u>	<u>36,430</u>	<u>846,401</u>

For the year ended 31 December 2015

	Paper products				Electricity and steam RMB'000	Total RMB'000
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000		
Revenue from external customers	1,070,221	1,643,205	483,401	335,658	193,323	3,725,808
Inter-segment revenue	—	—	—	—	280,253	280,253
Segment revenue	<u>1,070,221</u>	<u>1,643,205</u>	<u>483,401</u>	<u>335,658</u>	<u>473,576</u>	<u>4,006,061</u>
Segment profit	<u>188,831</u>	<u>358,767</u>	<u>91,555</u>	<u>72,873</u>	<u>37,969</u>	<u>749,995</u>

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

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

	2016 RMB'000	2015 RMB'000
Profit		
Segment profit	846,401	749,995
Unrealised profit on inter-segment sales	(60,235)	(50,679)
	786,166	699,316
Distribution and selling expenses	(277,836)	(263,652)
Administrative expenses	(170,045)	(146,362)
Other income	118,191	84,544
Other gains or losses	(29,231)	(5,893)
Finance costs	(224,881)	(257,952)
Change in fair value of an investment property	(4,516)	(15,945)
Share of loss of a joint venture	(12,533)	(23,258)
Consolidated profit before income tax	185,315	70,798

Depreciation of property, plant and equipment and release of prepaid lease payments, finance costs and interest income amounted to approximately RMB47,821,000 (2015: RMB47,223,000), RMB23,826,000 (2015: RMB33,469,000), and RMB2,222,000 (2015: RMB5,935,000), respectively, were included in segment profit of the electricity and steam segment.

The Group does not allocate depreciation of property, plant and equipment and release of prepaid lease payments, finance costs and interest income to the relevant paper product segment in the internal segment analysis as this information is not necessary.

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

(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 all the customers are substantially located in the PRC. Accordingly, no analysis of revenue and non-current assets by geographical location is presented.

7. OTHER INCOME, GAINS OR LOSSES

	2016 RMB'000	2015 RMB'000
Other income:		
Interest income on:		
Bank deposits	29,605	46,383
The balance with a joint venture (<i>Note i</i>)	22,969	21,773
Total interest income	52,574	68,156
Rental income from an investment property and other properties	1,695	3,941
Government grants (<i>Notes ii & iii</i>)	67,109	19,090
	121,378	91,187
Other gains or losses:		
Net foreign exchange loss	(14,696)	(19,422)
Gain from sale of scrap materials, net	4,611	1,414
Loss on disposal and written off of property, plant and equipment	(20,038)	(117)
Change in the fair value of derivative financial instrument	—	(75)
Allowance for impairment of trade receivables	(1,547)	(2,316)
Reversal of provision for indemnity (<i>Note iv</i>)	—	11,875
Others	3,441	3,296
	(28,229)	(5,345)

Notes:

- i. During the year ended 31 December 2016, the Group earned interest income from 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd) at a weighted average effective interest rate of 6.80% per annum (2015: 7.17% per annum).
- ii. During the year ended 31 December 2016, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd) (“**Century Sunshine**”), a subsidiary of the Company, was granted and received unconditional government subsidy of approximately RMB49,778,000 (2015: RMB16,080,000) from local government for the purpose of supporting its operation.
- iii. During the year ended 31 December 2016, 昌樂新邁紙業有限公司 (Numat Paper Industry Co., Ltd.), a subsidiary of the Company, obtained unconditional government subsidy of approximately RMB15,536,000 (2015: Nil) from local government, the amount of which was determined by reference to the amount of value-added tax (“VAT”) paid.
- iv. An amount of approximately RMB11,875,000 included in other gains or losses for the year ended 31 December 2015 represented the reversal of provision for indemnity for the early termination of a derivative contract recognised and included under other payable in previous year.

8. FINANCE COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest expenses on:		
Discounted bill financing	86,124	128,339
Bank and other borrowings wholly repayable within five years	115,404	121,229
Finance leases	8,764	6,342
Short-term financing note	—	1,296
Corporate bond	40,950	38,874
	<u>251,242</u>	<u>296,080</u>
Less: Interest capitalised in construction in progress	(2,535)	(4,659)
	<u>248,707</u>	<u>291,421</u>

Borrowing costs capitalised during the year ended 31 December 2016 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 5.22% to 7.20% (2015: 5.85%) per annum to expenditure on construction in progress.

9. INCOME TAX EXPENSE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax		
PRC enterprise income tax	59,104	14,510
Under provision in previous year	3,076	2,541
Deferred tax charge	(3,424)	(2,427)
	<u>58,756</u>	<u>14,624</u>

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, other than those disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2015: 25%).

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015 as the Group did not have any assessable profit subject to Hong Kong Profits Tax during both years.

10. PROFIT FOR THE YEAR

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit for the year has been arrived at after (crediting) charging:		
Wages and salaries	156,708	151,708
Retirement benefits schemes contributions	44,485	25,391
Total staff costs (including the Directors' emoluments)	201,193	177,099
Cost of inventories recognised as an expense	3,231,489	2,877,320
Depreciation of property, plant and equipment	243,070	218,875
Allowance for impairment of trade receivables	1,547	2,316
Release of prepaid lease payments	5,804	5,519
Auditor's remuneration	1,548	1,940
Net foreign exchange loss	14,696	19,422
Rental income from an investment property and other properties	(1,695)	(3,941)
Direct operating expenses incurred for investment properties generated rental income during the year	—	76

11. DIVIDENDS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Dividends recognised as distributions during the year: 2016 — interim, paid — HK\$0.03 (2015: nil)	20,579	—

A final dividend of HK\$0.04 per share in respect of the year ended 31 December 2016 has been proposed by the Directors and is subject to the approval of the Company's shareholders in the forthcoming annual general meeting. A final dividend of HK\$0.03 per share in respect of the year ended 31 December 2015 amounting to a total of HK\$24,077,640 (equivalent to approximately RMB20,579,000) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 8 June 2016.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit of RMB123,111,000 (2015: profit of RMB51,258,000) for the year attributable to owners of the Company, and the weighted average number of 802,588,000 (2015: 802,588,000) ordinary shares in issue during the year.

There are no dilutive potential ordinary shares in issue for the year ended 31 December 2016 and 31 December 2015. The basic earnings per share equals to the diluted earnings per share.

13. DEPOSITS AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Due from a joint venture	297,570	229,825
Loan to a related company	36,916	—
Guarantee deposits for finance leases	27,684	17,184
Deposits for acquisition of property, plant and equipment	4,237	2,936
	366,407	249,945

14. INVENTORIES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Raw materials	213,478	232,405
Finished goods	131,768	142,650
	<u>345,246</u>	<u>375,055</u>

15. TRADE RECEIVABLES

An analysis of trade receivables, net of allowance for impairment of trade receivables, is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables due from:		
— Third parties	295,339	405,957
— Related party	15,133	10,134
	<u>310,472</u>	<u>416,091</u>

Included in the balance of trade receivables above, there was no pledge of trade receivables at 31 December 2016 (2015: approximately RMB162,975,000 was pledged to banks to secure banking facilities granted to the Group).

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 independent customers.

The following is an aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0–30 days	261,426	329,797
31–90 days	37,303	58,551
91–365 days	11,743	24,659
Over 1 year	—	3,084
	<u>310,472</u>	<u>416,091</u>

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 RMB4,318,000 (2015: RMB29,801,000) 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.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
31–90 days	2,922	18,458
91–365 days	1,396	8,494
Over 1 year	—	2,849
	<u>4,318</u>	<u>29,801</u>

The Directors 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 impairment of trade receivables during the year:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
At the beginning of the year	8,764	6,448
Provided during the year	<u>1,547</u>	<u>2,316</u>
At the end of the year	<u>10,311</u>	<u>8,764</u>

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 large number of customers.

16. BILLS RECEIVABLE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Bills receivable	<u>532,016</u>	<u>347,549</u>

The bills represent promissory notes issued by banks received by the Group from customers who discharge their liabilities to pay the Group for the goods or services invoiced. These bills are endorsable, unsecured and non-interest bearing.

Included in the above balance, bills receivable of approximately RMB193,026,000 (2015: RMB186,000,000) were discounted to banks with recourse. These bills receivable were not derecognised as the title of these bills receivable were not transferred to the banks. In the other hand, discounted bill financing of RMB193,026,000 (2015: RMB186,000,000) was recognised for the cash received from banks.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0–90 days	186,696	235,830
91–180 days	309,280	109,899
181–365 days	<u>36,040</u>	<u>1,820</u>
	<u>532,016</u>	<u>347,549</u>

Bills receivable endorsed

Not included in the year end balance, during the year, the Group has transferred bills receivables amounted to RMB659,389,000 (2015: RMB432,281,000) to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognised these bills receivable and the payables to suppliers in their entirety, as in the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills to the suppliers. The Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The maximum exposure to loss, which is same as the amount payable by the Group to the supplier in respect of the endorsed bills, should the issuing bank fail to settle the bills on maturity date amounted to RMB659,389,000 (2015: RMB432,281,000). All the bills receivables endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

17. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Prepayments to suppliers	113,131	111,943
Other receivables	65,570	181,764
	<u>178,701</u>	<u>293,707</u>

An analysis of other receivables is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
VAT recoverable	41,675	86,357
Deposits	10,059	17,560
Advance to employees	452	1,597
Interest receivable	986	3,673
Loan to a joint venture	—	50,000
Others	12,398	22,577
	<u>65,570</u>	<u>181,764</u>

18. TRADE PAYABLES

An analysis of trade payables is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables to third parties	<u>936,017</u>	<u>778,830</u>

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

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

	2016 RMB'000	2015 <i>RMB'000</i>
0–90 days	770,717	618,197
91–365 days	154,251	140,336
Over 1 year	11,049	20,297
	<u>936,017</u>	<u>778,830</u>

19. BILLS PAYABLE

The balance represents the amounts payable to banks for bills issued by the banks to suppliers of the Group.

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

	2016 RMB'000	2015 <i>RMB'000</i>
0–90 days	20,000	50,000
91–180 days	175,000	100,000
Over 180 days	30,000	24,000
	<u>225,000</u>	<u>174,000</u>

All the bills payable are of trading nature and will be expired within twelve months (2015: twelve) from the issue date.

20. OTHER PAYABLES

An analysis of other payables is as follows:

	2016 RMB'000	2015 <i>RMB'000</i>
Other payables due to third parties	<u>214,240</u>	<u>135,878</u>
	2016 RMB'000	2015 <i>RMB'000</i>
Other payables	22,581	30,054
Advance from customers	137,470	69,215
VAT and other tax payable	30,548	15,932
Interest payable of corporate bond	18,399	18,399
Other interest payable	2,369	1,469
Accrued payroll and welfare	2,873	809
	<u>214,240</u>	<u>135,878</u>

21. DISCOUNTED BILL FINANCING

The balance represents borrowings from banks by discounting, with recourse, bills receivable to the Group. At the reporting date, the balance comprised the follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Discounting of bills receivable from third party	193,026	186,000
Discounting of bills receivable amongst components of the Group	<u>1,796,866</u>	<u>1,824,129</u>
Total	<u><u>1,989,892</u></u>	<u><u>2,010,129</u></u>

- a. These borrowings arose from discounting, with recourse, of bills receivable from third parties. The Group continues to recognise the carrying amount of the underlying bills receivable since the title of receivables was not transferred to the lending banks.
- b. These borrowings arose from discounting, with recourse, of intra-group bills receivable, from one component to another of the Group. The Group continues to recognise the carrying amount of the underlying bills receivable since the title of receivables was not transferred to the lending banks. However, the corresponding intra-group bills receivable were eliminated in consolidation against the original bills payable from the bill issuing component of the Group.

In order to obtain the original intra-group bills, bank deposits of RMB1,192,750,000 (2015: RMB1,279,185,000) were pledged to the issuing banks.

22. BANK BORROWINGS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Secured bank borrowings	1,220,920	1,850,769
Unsecured bank borrowings	<u>613,230</u>	<u>219,561</u>
	<u><u>1,834,150</u></u>	<u><u>2,070,330</u></u>
The borrowings are repayable as follows:		
Within one year	1,769,150	1,870,430
In the second year	27,000	199,900
In the third to fifth years inclusive	<u>38,000</u>	<u>—</u>
	1,834,150	2,070,330
Less: Amount due for settlement within one year and shown under current liabilities	<u>(1,769,150)</u>	<u>(1,870,430)</u>
Amount due after one year	<u><u>65,000</u></u>	<u><u>199,900</u></u>
Total borrowings		
— At fixed rates	1,068,168	1,262,560
— At floating rates	<u>765,982</u>	<u>807,770</u>
	<u><u>1,834,150</u></u>	<u><u>2,070,330</u></u>
Analysis of borrowings by currency:		
— Denominated in RMB	1,834,150	1,980,020
— Denominated in US\$	<u>—</u>	<u>90,310</u>
	<u><u>1,834,150</u></u>	<u><u>2,070,330</u></u>

Fixed-rate borrowings are charged at the rates ranging from 3.08% to 7.40% per annum as at 31 December 2016 (2015: 2.50% to 7.80% per annum).

Interests on RMB borrowings at floating rates are charged by reference to the borrowing rates announced by the People's Bank of China. US\$ borrowings were fully repaid during the year (2015: Interest on US\$ borrowings at floating rate was charged at 3.99% over LIBOR).

For all bank borrowings as above, the weighted average effective interest rate for the year ended 31 December 2016 was 5.11% per annum (2015: 5.57% per annum).

23. OTHER BORROWING

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Borrowing from Weifang City Investment Co., Ltd. (潍坊市投资有限公司) ("Weifang City Investment")	<u>11,000</u>	<u>12,500</u>

The borrowing from Weifang City Investment, an unconnected third party, is unsecured and repayable on demand. The effective weighted average interest rate for the year ended 31 December 2016 was 6.65% per annum (2015: 6.77% per annum).

24. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was approximately RMB500,000,000 with annual coupon rate of 8.19%. The corporate bond is guaranteed by China United SME Guarantee Corporation Co., Ltd, and is with counter-guarantee arrangement with the Group's investment property of approximately RMB181,712,000 (2015: RMB185,522,000), and will be repaid with 20% of offering size annually from the year 2017 to the year 2021.

25. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Authorised: Ordinary shares of HK\$0.10 each At 1 January 2015, 31 December 2015 and 31 December 2016	<u>2,000,000,000</u>	<u>200,000</u>
	Number of shares	Share capital <i>HK\$'000</i>
		Shown in the consolidated financial statements <i>RMB'000</i>
Issued and fully paid: At 1 January 2015, 31 December 2015 and 31 December 2016	<u>802,588,000</u>	<u>80,258</u>
		<u>72,351</u>

BUSINESS REVIEW

In 2016, production operation and business environment remained stable as a whole for the entire pulp and paper making and paper products industry. Environmental awareness pressed the industry further into the process of eliminating weaker players and keeping only the stronger ones, resulting in fewer supply and effective digestion of inventory. Although the demand-supply situation had improved momentarily, it remained under pressure. The entire workforce of our Group, from top to bottom, had been focusing on “innovation and revolution” so as to continuously maintain a healthy operation for the enterprise.

Having analyzed the current situation, the management of the Group made prudent response to continue to promote the standard of supply chain management and the operation standard of enterprise resource planning with focus on logistic reform and procurement reform, enabling successful implementation of various initiatives and making breakthrough in production operation. As a result, our Group achieved a record-breaking production capacity and sales volume of approximately 1.27 million tons of products for 2016.

OUTLOOK

The belief of “making paper by environmental-friendly methods” has generally become a common ground of the industry. With more stringent, systematic and optimized environmental policies and systems, enterprises will be forced to fulfill their social responsibilities in pursuing long-term development, which should work well for facilitating a level playing field among enterprises.

We see the co-existence of opportunities and challenges, and simultaneous presence of difficulties and hopes in 2017. The Group will grab the material strategic opportunities arising from the recovery of the paper manufacturing market by paying close attention to market development. We will strive for horizontal expansion of our core business while extending the industry chain vertically by accelerating the implementation of innovation-driven strategy and international development strategy. Meanwhile, we will foster and create new drive and endeavor in developing new strengths with a view to enhance our operation standard and cost-effectiveness, which will increase our management standard and bring our operating result to a new high level.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue

Our Group’s total revenue for the year ended 31 December 2016 (“**FY2016**”) was RMB4,223.3 million, representing an increase of RMB497.5 million or 13.4% as compared to that of RMB3,725.8 million for the year ended 31 December 2015 (“**FY2015**”).

Sales of paper products, which recorded an increase of 14.7%, accounted for substantially all of our Group’s total revenue. Our successful marketing strategy and customer focused products resulted in the increase in sales volume of our paper products from 1.15 million tons for FY2015 to 1.27 million tons for FY2016, and as well as their average selling prices.

Sales of electricity and steam continued to account for a low single digit percentage of our Group’s total revenue.

The following table sets forth our Group's total revenue by different business segments:

	FY2016		FY2015	
	<i>RMB'000</i>		<i>RMB'000</i>	
Sales of paper products				
White top linerboard	1,196,996	28.3	1,070,221	28.7
Light-coated linerboard	1,755,488	41.6	1,643,205	44.1
Core board	514,614	12.2	483,401	13.0
Specialized paper products	585,605	13.9	335,658	9.0
Sub-total of paper products	4,052,703	96.0	3,532,485	94.8
Sales of electricity and steam	170,595	4.0	193,323	5.2
	<u>4,223,298</u>	<u>100.0</u>	<u>3,725,808</u>	<u>100.0</u>

Cost of sales

Our cost of sales was around RMB3,396.3 million for FY2016, whereas the cost of sales for FY2015 was RMB2,980.0 million. Cost of sales for FY2016 was progressively grown with the increase in total revenue in general. We saw an increase in purchase cost of both domestic recovered paper and overseas recovered paper during FY2016. With respect to the costs of our paper products segment, domestic recovered paper, overseas recovered paper and kraft pulp accounted for approximately 26.5%, 32.9% and 10.5%, respectively, of our cost of sales for FY2016.

Chemicals and additives was portioned around 10.0% of the cost of sales and the remaining 20.1% were manufacturing overhead costs and labour costs.

Gross profit and gross profit margin

Our gross profit increased from RMB745.8 million for FY2015 to RMB827.0 million for FY2016. During FY2016, we absorbed some cost increment pressure without passing it to customers. As such, our gross profit margin for FY2016 was 19.6%, representing a 0.4 percentage point decrease as compared to that of 20.0% for FY2015.

Other profit and loss items

Other income of RMB121.4 million for FY2016 (FY2015: RMB91.2 million) mainly comprised interest income of RMB52.6 million (FY2015: RMB68.2 million), rental income from an investment property and other properties of RMB1.7 million (FY2015: RMB3.9 million) and government grants of RMB67.1 million (FY2015: RMB19.1 million). The increase in government grants mainly reflected unconditional government subsidies of RMB49.8 million and RMB15.5 million for the purposes of supporting the Group's operation and refund of value-added tax paid, respectively.

We recorded net other losses of RMB28.2 million for FY2016, as compared to that of RMB5.3 million for FY2015. The increase in net other losses mainly reflected a loss on disposal and written off of property, plant and equipment of RMB20.0 million in FY2016. Net foreign exchange loss of RMB14.7 million was reported in FY2016 (FY2015: RMB19.4 million). The continuing depreciation of Renminbi against US dollar during FY2016 resulted in the foreign exchange loss of our bank borrowings denominated in US dollar.

Transportation cost and staff costs constituted major parts of the distribution and selling costs. Distribution and selling expenses recorded an increase from RMB263.7 million for FY2015 to RMB277.8 million for FY2016. For FY2016, it was approximately 6.6% of the total revenue, compared with 7.1% for FY2015.

The expansion of operation size of our Group resulted in the increase in administrative expenses from RMB166.5 million for FY2015 to RMB191.2 million for FY2016. As a percentage of total revenue, it was approximately 4.5% for both FY2015 and FY2016.

The loss for the change in fair value of an investment property of RMB4.5 million represented the revaluation loss arising from the investment property located in the PRC (FY2015: RMB15.9 million revaluation loss).

We continued to share the loss of a joint venture of RMB12.5 million for FY2016, which was much lower than that of RMB23.3 million for FY2015. The launch of high quality decorative papers during FY2016 resulted in the improvement in the operating results of this joint venture.

Finance costs decreased by approximately 14.7% or RMB42.7 million, from RMB291.4 million for FY2015 to RMB248.7 million for FY2016. The decrease in finance costs resulted from the renewal of lower interest bearing bank borrowings and a reduction of bank borrowings in FY2016.

Income tax expenses

Income tax expenses were RMB58.8 million and RMB14.6 million, respectively, for FY2016 and FY2015. The sharp increase in income tax expenses reflected the increase in taxable profit of our Group's PRC subsidiaries, which are subject to PRC enterprise tax of 25%.

Profit for the year

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of RMB123.1 million for FY2016 (FY2015: RMB51.3 million).

Liquidity and financial resources

Treasury policy

Our working capital requirement and capital expenditure are financed by a combination of cash generated from our operations and bank and other borrowings. It is our Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During FY2015 and FY2016, our Group continued to adopt a conservative approach to financial risk management.

Market risks

As the functional and reporting currencies of our Group are Renminbi, there are no foreign exchange differences arising from the translation of financial statements. In addition, as our Group conducts business transactions principally in Renminbi, the exchange rate risk at our Group's operational level is not significant. Nevertheless, the management continues to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when needed.

Working capital

Net current liabilities of our Group was RMB1,963.6 million as at 31 December 2016, as compared to that of RMB1,740.2 million as at 31 December 2015. The increase in net current liabilities mainly reflected a portion of the seven-year corporate bond to be repaid in fiscal year 2017. Current ratio was 0.63 times and 0.66 times, respectively, as at 31 December 2016 and 31 December 2015.

As at 31 December 2016, we had bank balances and cash, and restricted bank deposits, of approximately RMB2,037.8 million, representing an increase of RMB204.4 million as compared to that of RMB1,833.4 million as at 31 December 2015.

Inventories decreased from RMB375.1 million as at 31 December 2015 to RMB345.2 million as at 31 December 2016. Inventory turnover was 39 days for FY2016, as compared to that of 46 days for FY2015.

Trade receivables decreased from RMB416.1 million as at 31 December 2015 to RMB310.5 million as at 31 December 2016. Trade receivables turnover for FY2016 was 31 days as compared to 40 days for FY2015. The shorter trade receivables turnover day reflected the improving business environment of paper manufacturing for FY2016.

Trade payables were RMB936.0 million as at 31 December 2016, as compared to RMB778.8 million as at 31 December 2015. Trade payables turnover for FY2016 was 92 days, as compared to that of 87 days for FY2015.

Cashflow

Net cash from operating activities amounted to RMB848.3 million for FY2016 (FY2015: RMB733.2 million). Net cash used in investing activities amounted to RMB40.9 million for FY2016 (FY2015: Net cash from investing activities of RMB17.5 million), primarily representing the purchase of property, plant and equipment of RMB175.1 million, offset in part by RMB60.5 million for the proceeds from disposal of a subsidiary, decrease in restricted bank deposits of RMB60.9 million, and the repayment from a joint venture of RMB50.0 million.

Net cash used in financing activities amounted to RMB542.7 million for FY2016 (FY2015: RMB725.4 million), primarily attributable to interest paid of RMB252.9 million, the net repayment of bank and other borrowings of RMB319.7 million, and the repayment of obligations under finance lease of RMB86.3 million, offset in part by the net proceeds from sale and finance lease back transactions of RMB127.0 million.

The combined effect of the above resulted in a net increase in cash and cash equivalents of RMB264.8 million for FY2016 (FY2015: RMB25.3 million).

Gearing

Our net gearing ratio decreased from 54.8% as at 31 December 2015 to 27.5% as at 31 December 2016. The improvement in net gearing ratio was mainly driven by the decrease in bank borrowings of RMB236.2 million.

Capital expenditure

During FY2016, our capital expenditure was approximately RMB184.0 million, which mainly related to the upgrade of our plant and machinery, and the construction of ancillary facilities.

Pledge of assets

As at 31 December 2016, the aggregate carrying amount of our assets pledged was approximately RMB2,794.6 million. (2015: RMB2,978.8 million).

Capital commitments and contingent liabilities

Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment was approximately RMB33.0 million as at 31 December 2016 (2015: RMB79.1 million).

As at 31 December 2016, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 2,950 full-time employees in the PRC and Hong Kong as at 31 December 2016. The staff costs for FY2016 were approximately RMB201.2 million, representing an increase of RMB24.1 million over FY2015 of approximately RMB177.1 million. 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 emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Subsequent Events

Subsequent to the year ended 31 December 2016, certain PRC banks agreed to extend the expiration dates of the Group's bank borrowings of approximately RMB355,193,000 for one year when they fall due in year 2017.

Notes to financial ratios

- (1) *Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.*
- (2) *Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant year divided by turnover of the relevant year and multiplied by 365 days.*
- (3) *Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.*
- (4) *Current ratio equals current assets divided by current liabilities as of the end of the year.*
- (5) *Net gearing ratio equals total of borrowings, short-term financing notes, corporate bond and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by total equity as of the end of the year.*

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY2016, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of their respective securities.

CORPORATE GOVERNANCE PRACTICES

Our Company is committed to achieve a high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximizing shareholders' interests. Our Company has complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules during FY2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made to all Directors by our Company to confirm that all Directors have complied with the Model Code during FY2016.

AUDIT COMMITTEE

The primary duties of the audit committee of our Company (the “**Audit Committee**”) are to review and supervise our Company's financial reporting process, internal control and risk management system, and provide advice and comments to our Board. The Audit Committee, comprising Ms. Shan Xueyan (Chairlady), Mr. Wang Zefeng and Ms. Jiao Jie, has reviewed the audited annual results for FY2016 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with our management and our Company's external auditors.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's audited annual results for FY2016 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure. The financial information set out in this announcement has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's auditor, Grant Thornton Hong Kong Limited.

DIVIDEND

The Board proposed the payment of a final dividend of HK4 cents per ordinary share for FY2016 (FY2015: HK3 cents), subject to approval of the shareholders of the Company (the “**Shareholders**”) at the annual general meeting of the Company expected to be held on 19 May 2017 (the “**AGM**”).

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The register of members of our Company will be closed from 16 May 2017 to 19 May 2017, both days inclusive, for the purpose of determining entitlement to attend the AGM, during which no transfer of shares of our Company will be registered. In order to qualify for attending and voting at the AGM, Shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 15 May 2017.

Notice of the AGM will be published on our website at www.sunshinepaper.com.cn and on the website of the Stock Exchange at www.hkexnews.hk, and dispatched to the Shareholders in due course.

In relation to the final dividend

Shareholders whose names appear on the Company's register of members on 8 June 2017 will qualify for the proposed final dividend. The register of members of our Company will be closed from 7 June 2017 to 8 June 2017, for the purpose of determining entitlement to the proposed final dividend, during which no transfer of shares of our Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 6 June 2017. The proposed final dividend (the payment of which is subject to the Shareholders' approval at the AGM) is payable on or about 20 June 2017 to the Shareholders whose names appear on the register of members of the Company on 8 June 2017.

PUBLICATION OF RESULTS

This announcement of results has been published on our website at www.sunshinepaper.com.cn and the website of the Stock Exchange at www.hkexnews.hk. The annual report of our Company for FY2016 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be dispatched to the Shareholders and published on our website at www.sunshinepaper.com.cn and the website of the Stock Exchange at www.hkexnews.hk in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all the Shareholders, customers, suppliers, banks, professional parties and employees of our Group for their continuous support.

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

Shanghai, China, 17 March 2017

As at the date of this announcement, the directors of the Company are:

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

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

Independent non-executive directors: **Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie**

* *For identification purposes only*