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 FINANCIAL YEAR ENDED 31 DECEMBER 2012 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

Revenue slightly decreased by 0.5% to RMB3,704.2 million

Gross profit margin was 16.6%, which was comparable to 16.8% for the corresponding period last year

Total comprehensive income and profit for the year attributable to the owners of the Company was RMB59.6 million and RMB44.0 million, respectively

Basic earnings per share of RMB0.05

Net assets value per share of RMB1.85

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of China Sunshine Paper Holdings Company Limited (the "Company") is pleased to announce the consolidated results of our Company and its subsidiaries (the "Group") for the financial year ended 31 December 2012, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	4	**3,704,180**	3,721,189
Cost of sales		**(3,088,852)**	(3,095,052)
Gross profit		**615,328**	626,137
Other income, gains and losses	5	**117,619**	82,429
Distribution and selling expenses		**(223,193)**	(204,263)
Administrative expenses		**(135,956)**	(131,156)
Change in fair value of derivative financial instruments		**430**	691
Change in fair value of investment properties	6	**32,706**	—
Finance costs	7	**(335,439)**	(258,141)
Profit before tax	8	**71,495**	115,697
Income tax expense	9	**(16,929)**	(27,188)
Profit for the year		**54,566**	88,509
Other comprehensive income	10		
Gain on revaluation of investment properties		**20,373**	—
Income tax relating to component of other comprehensive income		**(4,761)**	—
Other comprehensive income for the year, net of income tax		**15,612**	—
Total comprehensive income for the year		**70,178**	88,509
Profit for the year attributable to:			
Owners of the Company		**43,983**	82,402
Non-controlling interests		**10,583**	6,107
		54,566	88,509
Total comprehensive income attributable to:			
Owners of the Company		**59,593**	82,402
Non-controlling interests		**10,585**	6,107
		70,178	88,509
		RMB	*RMB*
Earnings per share	12		
— Basic		**0.05**	0.10
— Diluted		**0.05**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment		**3,252,719**	3,387,027
Investment Property	6	**241,728**	—
Prepaid lease payments		**188,798**	169,787
Goodwill		**18,692**	18,692
Deferred tax assets		**10,612**	8,540
Assets held for establishment of jointly controlled entity		**103,530**	—
Deposits		**122,185**	50,000
		3,938,264	3,634,046
Current assets			
Prepaid lease payments		**3,853**	3,465
Inventories	13	**656,496**	625,107
Trade receivables	14	**392,456**	362,326
Loan receivable		**50,000**	—
Bills receivable	15	**528,567**	783,666
Prepayments and other receivables		**323,603**	384,637
Income tax recoverable		**6,000**	1,208
Restricted bank deposits		**1,162,368**	935,471
Bank balances and cash		**258,391**	248,278
		3,381,734	3,344,158
Assets classified as held for sale		**157,550**	—
		3,539,284	3,344,158
Current liabilities			
Trade payables	16	**408,602**	551,362
Bills payable	17	**90,000**	206,500
Other payables		**111,331**	180,011
Payable for construction work, machinery and equipment		**58,036**	156,160
Income tax payable		**3,915**	783
Obligations under finance leases—current portion	18	**95,372**	53,624
Deferred income—current portion		**2,103**	1,995
Derivative financial instruments		**259**	1,380
Discounted bill financing	19	**1,870,699**	1,188,542
Bank borrowings—due within one year	20	**2,355,939**	2,078,456
Other borrowings		**14,000**	14,000
		5,010,256	4,432,813
Net current liabilities		**1,470,972**	1,088,655
Total assets less current liabilities		**2,467,292**	2,545,391

	Notes	**2012**	2011
		RMB'000	*RMB'000*
Capital and reserves			
Share capital		**72,351**	72,351
Reserves		**1,412,151**	1,368,855
Equity attributable to owners of the Company		**1,484,502**	1,441,206
Non-controlling interests		**85,323**	73,155
Total equity		**1,569,825**	1,514,361
Non-current liabilities			
Obligations under finance leases—non-current portion	*18*	**195,351**	170,656
Bank borrowings—due after one year	*20*	**656,469**	823,120
Deferred income—non-current portion		**25,460**	27,371
Deferred tax liabilities		**20,187**	9,883
		897,467	1,031,030
Total equity and non-current liabilities		**2,467,292**	2,545,391

NOTES:

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.

The Group had net current liabilities of RMB1,470,972,000 as at 31 December 2012. 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), short-term financing notes issued subsequent to 31 December 2012 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.

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

In the current year, the Group has applied the following amendments to standards issued by the International Accounting Standards Board ("IASB") which are or have become effective.

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. The directors of the Company have assessed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through generating rental income. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to IAS 12 is rebutted.

In the current year, deferred tax of approximately RMB9,712,000 have been provided for changes in fair value of the Group's investment properties. Since the Group has no investment properties in prior years, there is no impact on the results and the financial positions of the Group in prior years and as at 1 January 2011 and 31 December 2011.

Amendments to IFRS 7 Disclosures—Transfers of Financial Assets

The Group has applied for the first time the amendments to IFRS 7 Disclosures—Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to IFRS 7.

The Group has not early applied the following new and revised Standards, Amendments and Interpretation ("New and revised IFRSs") that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures—Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2014

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost except for certain properties and financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

4. **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.

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.

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

For the year ended 31 December 2012

	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	**1,066,955**	**1,594,663**	**551,756**	**342,575**	**148,231**	**3,704,180**
Inter-segment revenue	**—**	**—**	**—**	**—**	**516,858**	**516,858**
Segment revenue	**1,066,955**	**1,594,663**	**551,756**	**342,575**	**665,089**	**4,221,038**
Segment profit	**210,872**	**210,573**	**125,938**	**45,167**	**66,891**	**659,441**

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

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

	2012 RMB'000	2011 RMB'000
Profit		
Segment profit	**659,441**	656,836
Unrealised profit on inter-segment sales	**(107,649)**	(72,207)
	551,792	584,629
Distribution and selling expenses	**(223,193)**	(204,263)
Administrative expenses	**(119,985)**	(114,516)
Other income, gains and losses	**110,607**	76,099
Finance cost	**(280,862)**	(226,943)
Change in fair value of derivative financial instrument	**430**	691
Change in fair value of investment properties	**32,706**	—
Consolidated profit before taxation	**71,495**	115,697

Depreciation of property, plant and equipment and release of prepaid lease payments, finance cost and interest income amounted to RMB43,477,000 (2011: RMB:39,667,000), RMB54,577,000 (2011: RMB:31,198,000), and RMB3,637,000 (2011: RMB1,810,000) was included in segment profit of the electricity and steam segment.

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.

(a) Information about major customers

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

(b) 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.

5. OTHER INCOME, GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Gross rental income from investment properties and other properties	**5,555**	1,277
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**(643)**	—
	4,912	1,277
Exchange gain	**958**	16,172
Government grants *(Note)*	**70,848**	36,609
Interest income on bank deposits	**24,903**	20,374
Interest income from loan receivable	**2,952**	—
Income from sales of scrap materials, net	**1,076**	3,263
Transportation service income	**14**	62
Compensation received	**3,404**	3,967
Gain (loss) on disposal of property, plant and equipment	**6,326**	(3,261)
Others	**2,226**	3,966
	117,619	82,429

Note: During the year ended 31 December 2012, Changdong Paper Recovery obtained unconditional government subsidy of approximately RMB30,064,000 (2011:RMB20,067,000) from local government, the amount of which was determined by reference to the amount of value-added tax paid.

During the year ended 31 December 2012, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd) ("Century Sunshine"), a subsidiary of the Company was granted unconditional government subsidy of approximately RMB36,511,000 from local government for the purpose of supporting its operation.

6. INVESTMENT PROPERTY

	Completed investment properties *RMB'000*	Investment properties under construction *RMB'000*	Total *RMB'000*
FAIR VALUE			
At 1 January 2011 and 31 December 2011	—	—	—
Transfers from property, plant and equipment and prepaid lease payment	37,639	88,021	125,660
Net increase in fair value recognised in other comprehensive income at date of transfer	17,055	3,318	20,373
Addition	—	62,989	62,989
Reclassified upon completion	154,328	(154,328)	—
Net increase in fair value recognised in profit or loss	32,706	—	32,706
At 31 December 2012	241,728	—	241,728

The fair value of the Group's investment properties at the date of transfer and 31 December 2012 have been arrived based on the valuation carried out on those dates by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent qualified professional valuers not connected with the Group. Jones Lang LaSalle Corporate Appraisal and Advisory Limited is members of the Institute of Valuers. The valuation for completed investment properties were arrived at by reference to market evidence of transaction prices for similar properties in the similar locations and conditions. In the case of investment property under development, its fair value reflects the expectations of market participants of the value of the property when it is completed, less deductions for the costs required to complete the project and appropriate adjustments for profit and risk. The valuation and all key assumptions used in the valuation reflect market conditions at the valuation date.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

At the end of the reporting period, the Group is in the process of obtaining the building certificate for the investment property. In the opinion of the directors of the Company, the Group will not incur significant additional cost in obtaining the building certificate.

7. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest expenses on:		
Discounted bill financing	**135,843**	81,108
Bank and other borrowings wholly repayable within five years	**207,001**	176,440
Finance leases	**21,556**	15,304
	364,400	272,852
Less: Interest capitalised in construction in progress	**(28,961)**	(14,711)
	335,439	258,141

Borrowing costs capitalised during the year ended 31 December 2012 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.79% (2011: 5.86%) per annum to expenditure on construction in progress.

8. PROFIT BEFORE TAX

	2012	2011
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**121,997**	107,027
Retirement benefits schemes contributions	**13,778**	10,975
Equity-settled share-based payment	**219**	444
Total staff costs (including directors emoluments)	**135,994**	118,446
Cost of inventories recognised as an expense	**2,965,911**	3,000,947
Depreciation of property, plant and equipment	**192,473**	169,417
Reversal of allowance for trade receivables	**—**	(242)
Release of prepaid lease payments	**3,481**	3,716
Auditor's remuneration	**2,187**	1,400

9. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**13,458**	27,427
Deferred tax (credit) charge	**3,471**	(239)
	16,929	27,188

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 applicable tax rate of the PRC subsidiaries of the Company is 25% from 1 January 2008 onwards.

Other than disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax rate of 25% (2011: 25%).

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, was 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 2012 was 12.5% (2011: 12.5%).

In 2010, Century Sunshine was recognised as Advanced Technology Enterprise which was 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 was entitled to enterprise income tax rate of 15% for three years from 2010 to 2012.

No provision for Hong Kong Profit Tax has been made for the year ended 31 December 2012 and 2011 as the Group did not have any assessable profit during both years.

10. OTHER COMPREHENSIVE INCOME

	2012	2011
	RMB'000	*RMB'000*
Other comprehensive income		
Gain on revaluation of properties and prepaid lease payments	**20,373**	—
Income tax relating to other comprehensive income (see below)	**(4,761)**	—
Other comprehensive income, net of income tax	**15,612**	—

Tax effect relating to other comprehensive income

	2012			2011		
	Before tax amount	**Tax effect**	**Net of income tax amount**	Before tax amount	Tax effect	Net of income tax amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Gain on revaluation of properties and prepaid lease payments transferred to investment properties	**20,373**	**(4,761)**	**15,612**	—	—	—

11. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends declared for distribution during the year:		
2011 final dividend—RMB0.021 per share (2011: 2010 final dividend—RMB0.042 per share)	**16,854**	33,404

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2012.

During 2012, a final dividend of RMB0.021 per share in respect of the year ended 31 December 2011, based on 802,588,000 shares of the Company as at 31 December 2011, in total of approximately RMB16,854,000, was proposed by the directors and approved by the shareholders in the annual general meeting.

12. 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:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**43,983**	82,402

Number of shares

	2012	2011
Number of ordinary shares for the purposes of basic earnings per share	**802,588,000**	802,588,000
Effect of dilutive potential ordinary shares:		
Share options	**—**	173,912
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**802,588,000**	802,761,912

The computation of diluted earnings per share does not assume the exercise of share options as the exercise price is higher than the average market price for share for 2012.

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.

13. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**337,950**	377,888
Finished goods	**318,546**	247,219
	656,496	625,107

14. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2012	2011
	RMB'000	*RMB'000*
Trade receivables due from:		
— Third parties	**382,757**	359,038
— Related parties	**9,699**	3,288
	392,456	362,326

Included in the balance of trade receivables above, approximately RMB348,000,000 at 31 December 2012 (2011: RMB172,384,000) 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 other customers.

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

	2012	2011
	RMB'000	*RMB'000*
0–30 days	**253,132**	298,702
31–90 days	**99,742**	44,988
91–365 days	**34,867**	16,961
Over 1 year	**4,715**	1,675
	392,456	362,326

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

15. BILLS RECEIVABLE

	2012	2011
	RMB'000	*RMB'000*
Bills receivable	**528,567**	783,666

During the year, the Group has discounted bills receivable of RMB255,199,000 (2011: RMB226, 442,000) 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.

As at 31 December 2011, bills receivable (excluding discounted bills receivable above) of RMB157,495,000 was also pledged to banks to secure banking facilities granted to the Group. No bills receivable (other than discounted bills receivable above) was pledged to banks as at 31 December 2012.

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

	2012	2011
	RMB'000	*RMB'000*
0–90 days	**248,803**	475,402
91–180 days	**279,764**	308,264
	528,567	783,666

16. TRADE PAYABLES

An analysis of trade payables is as follows:

	2012	2011
	RMB'000	*RMB'000*
Trade payables to third parties	**408,602**	551,362

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:

	2012	2011
	RMB'000	*RMB'000*
0–90 days	**337,535**	352,358
91–365 days	**51,704**	155,662
Over 1 year	**19,363**	43,342
	408,602	551,362

17. BILLS PAYABLE

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

	2012	2011
	RMB'000	*RMB'000*
0–90 days	**5,000**	146,500
91–180 days	**85,000**	60,000
	90,000	206,500

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

18. OBLIGATIONS UNDER FINANCE LEASE

The Group had leased certain machinery for a term of 3 to 5 years with a transfer of ownership upon the end of the lease period. These were recognised as finance leases.

In addition, during the year ended 31 December 2012, 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 RMB141,880,000 (2011: RMB 50,000,000). In accordance with the lease agreement, the term of the lease is 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.

	2012	2011
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current liabilities	**95,372**	53,624
Non-current liabilities	**195,351**	170,656
	290,723	224,280

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

19. DISCOUNTED BILL FINANCING

	2012	2011
	RMB'000	*RMB'000*
Discounted bill financing	**1,870,699**	1,188,542
Comprising:		
Discounted bill receivable from third party	**255,199**	226,442
Discounted bill receivable from subsidiaries of the Company	**1,615,500**	962,100
Total	**1,870,699**	1,188,542

Discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse. Bank deposits of RMB971,000,000 (2011: RMB671,800,000) were pledged by the subsidiaries to the banks for bank bills issued.

20. BANK BORROWINGS

	2012	2011
	RMB'000	*RMB'000*
Secured bank borrowings	**2,926,490**	2,572,392
Unsecured bank borrowings	**85,918**	329,184
	3,012,408	2,901,576
The borrowings are repayable as follows:		
Within one year	**2,355,939**	2,078,456
In the second year	**524,328**	215,807
In the third to fifth year inclusive	**132,141**	607,313
	3,012,408	2,901,576
Less: Amount due for settlement within one year and shown under current liabilities	**(2,355,939)**	(2,078,456)
Amount due after one year	**656,469**	823,120
Total borrowings		
— At fixed rates	**1,423,994**	712,612
— At floating rates	**1,588,414**	2,188,964
	3,012,408	2,901,576
Analysis of borrowings by currency:		
— Denominated in RMB	**2,653,528**	2,609,776
— Denominated in United States dollar	**212,936**	291,800
— Denominated in Hong Kong dollar	**145,944**	—
	3,012,408	2,901,576

Fixed-rate borrowings are charged at the rates ranging from 2% to 9% per annum as at 31 December 2012 (2011: 2% to 10% 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, interests on US$ borrowings at floating rates are charged at 3.1% to 3.5% over LIBOR (2011: 3.1% to 3.5% over LIBOR) and interests on HK$ borrowings at floating rates are charged at 4.5% over Hong Kong Interbank Offer Rate ("HIBOR") (2011: Nil).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2012 was 6.80% per annum (2011: 6.25% per annum).

Included in the new loans obtained during the year ended 31 December 2012, a loan of RMB200,000,000 was borrowed from a trust company for one year at an effective interest rate of 7.87% per annum. The loan was guaranteed by an independent third party (the "Guarantor"). The Group, simultaneously, granted a short-term loan of RMB50,000,000 to the Guarantor.

BUSINESS REVIEW AND OUTLOOK

Operation

Under the shadow of the global economy uncertainty and the European sovereign debt crisis during the financial year ended 31 December 2012 ("FY 2012"), China experienced the slowest economic growth since 1999. The lowering of the consumer sentiment in China resulted in a decline of the average selling price ("ASP") of our paper products. ASP of our paper products for FY 2012 was around RMB3,600 per ton, representing approximately a decrease of 10% as compared to nearly RMB4,000 per ton for the financial year ended 31 December 2011 ("FY 2011"). Notwithstanding the decline in ASP, the gross profit margin of our paper products only decreased slightly by approximately 0.4% for FY 2012 as compared to that for FY 2011 due to our more stringent cost control and waste materials control, which effectively lowered our costs of sales.

Notwithstanding the decline in ASP of our paper products, both our production and sales volumes reached a historical high during FY 2012. In FY 2012, we produced approximately 1.03 million tons of paper products, as compared to 960,000 tons for FY 2011. Sales volumes of our paper products recorded an increase by approximately 87,000 tons from approximately 905,000 tons for FY 2011 to approximately 992,000 tons for FY 2012. Of the 992,000 tons for FY 2012, approximately 490,000 tons were contributed from the first half of FY 2012 and approximately 502,000 tons were contributed from the second half of FY 2012.

All of our production lines operated at their optimum levels and the overall utilisation rate for our production lines was around 93.0% for FY 2012. Our other ancillary facilities, such as steam and power plant and waste water treatment, operated smoothly. Our eight recovered paper collection points continued to provide us with stable and low-cost domestic recovered paper for production in FY 2012.

Outlook

The business environment of paper industry in China remains challenging with opportunities but embedded with risks. In the past two years, most of the sizable paper manufacturers in China have slowed down their production expansion plans. We expect new production capacity that will commence operation in 2013 will not be excessive. On the other hand, we expect more stringent environmental rules and regulations in China will be implemented, which will speed up the elimination of inefficient paper mills during 2013. We believe that these two factors will likely cancel out the existing overcapacity issue in the paper manufacturing industry in China.

As mention above, the ASP of our paper products for FY 2012 was around RMB3,600 per ton, which was nearly 10% lower than the ASP of our paper products for FY 2011. With an increase in demand of the paper products benefited from the improvement in consumer sentiment in China and a reduction of the overcapacity in the paper industry in China as mentioned above, we expect the ASP of our paper products will gradually rebound in 2013 as a result.

Our eight recovered paper collection points in China continues to provide stable and low-cost domestic recovered paper for our production. In FY 2012, we established a procurement office in the United States of America, aiming to lower our procurement cost for overseas recovered paper. We aim to lower our raw materials cost to improve our profit margin.

In relation to our joint venture company, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd., (the "JV Company"), whose principal activities are manufacturing and sales of decorative paper in China and in which we are interested as to 51% of its equity interest, its pre-operation works including trial run of its production line are now in progress. We expect that it will commence its commercial operation in the second quarter of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue and ASP

Our Group's total revenue for FY 2012 was RMB3,704.2 million, of which RMB3,556.0 million derived from sales of paper products and RMB148.2 million derived from sales of electricity and steam. It was comparable to that of RMB3,721.2 million for FY 2011, representing a marginal decrease of approximately 0.5%.

Sales of paper products of RMB3,556.0 million for FY 2012 was also comparable to that of RMB3,606.8 million for FY 2011. The slightly decrease in the sales of our paper products reflected the negative effect arising from the decline in the ASP of our paper products out-weighted the positive effect from the increase in their sales volumes. Decline in the ASP of our paper products for FY 2012 reflected the lower raw materials costs and the imbalance of demand and supply of paper products in China. The increase in sales volumes of our paper products, from 905,000 tons for FY 2011 to 992,000 tons for FY 2012, was mainly driven by the expansion of our sales network in China and the full operation of our production lines.

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

	FY 2012			FY 2011		
	RMB'000	***%***	**Gross profit margin *(%)****	*RMB'000*	*%*	Gross profit margin *(%)**
Sales of paper products						
White top linerboard	**1,066,955**	**28.8**	**15.8**	1,221,544	32.8	16.6
Light-coated linerboard	**1,594,663**	**43.1**	**17.0**	1,511,551	40.6	15.7
Core board	**551,756**	**14.9**	**17.6**	600,111	16.1	21.6
Specialized paper products	**342,575**	**9.2**	**14.5**	273,625	7.4	14.2
Subtotal of sales of paper products	**3,555,949**	**96.0**	**16.5**	3,606,831	96.9	16.9
Sales of electricity and steam	**148,231**	**4.0**	**19.5**	114,358	3.1	15.4
	3,704,180	**100.0**	**16.6**	3,721,189	100.0	16.8

* *approximate numbers*

The following table sets forth the ASP of our paper products:

	FY 2012 ***RMB per ton ****	FY 2011 *RMB per ton **	**% increase/** **(decrease)**
White top linerboard	**3,720**	4,040	(7.9)%
Light-coated linerboard	**3,900**	4,150	(6.0)%
Core board	**2,780**	3,260	(14.7)%

* *approximate numbers*

Cost of sales

Our cost of sales slightly decreased by 0.2%, from RMB3,095.1 million for FY 2011 to RMB3,088.9 million for FY 2012, which was generally in line with the decrease in the total revenue. With respect to our paper products segment, domestic recovered paper, overseas recovered paper, and kraft pulp accounted for approximately 28.0%, 21.0% and 14.0%, respectively, of our cost of sales. Chemicals and additives consumed accounted for approximately 13.0% of the cost of sales. Manufacturing overhead costs accounted for approximately 22.0% of the cost of sales, in which depreciation, electricity and steam already represented the majority of manufacturing overhead cost. The remaining 2.0% of cost of sales represented labour cost.

Gross profit and gross profit margin

Our gross profit decreased by RMB10.8 million, from RMB626.1 million for FY 2011, to RMB615.3 million for FY 2012, representing a slightly decrease of 1.7%. Our overall gross profit margin recorded a decrease from 16.8% for FY 2011 to 16.6% for FY 2012. With respect to the paper products segment, our gross profit margin decreased from 16.9% for FY 2011 to 16.5% for FY 2012 due to the decrease of the ASP of our paper products.

Other profit and loss items

Other income, gains and losses mainly comprised of interest income of RMB24.9 million (FY 2011: RMB20.4 million), net rental income of RMB4.9 million (FY 2011: RMB1.3 million), and government grants of RMB70.8 million (FY 2011: RMB36.6 million), including approximately RMB30.1 million in relation to the refund of valued-added tax paid for the sales of domestic recovered paper and approximately RMB36.5 million of unconditional government subsidy.

Distribution and selling expenses increased from RMB204.3 million for FY 2011 to RMB223.2 million for FY 2012, representing an increase of approximately 9.3%, which primarily consisted of transportation cost and staff costs. As a percentage of total revenue, it also recorded an increase from 5.5% in FY 2011 to 6.0% in FY 2012.

Administrative expenses slightly increased from RMB131.2 million for FY 2011 to RMB136.0 million for FY 2012. As a percentage of total revenue, it also recorded a slight increase from 3.5% in FY 2011 to 3.7% in FY 2012.

The net gain from the change in fair value of investment property of RMB32.7 million represented the revaluation gain arising from two investment properties located in PRC.

Finance costs increased from RMB258.1 million for FY 2011 to RMB335.4 million for FY 2012, representing an increase of approximately 23.0%. The increase was mainly driven by the higher bills discount charges of RMB54.7 million from more frequent uses of discounted bills facilities by our

Group during FY 2012. Notwithstanding the increase in finance costs for FY 2012, the finance costs for the second half of FY 2012 was approximately RMB155.9 million, which was around 13.1% lower than that of RMB179.5 million in the first half of FY 2012.

Income tax expenses

Income tax expenses decreased from RMB27.2 million for FY 2011 to RMB16.9 million for FY 2012, representing a decrease of approximately 37.9%,which is principally in line with the decrease of our profit. The effective tax rate was 23.7% in FY 2012, which was comparable to 23.5% in FY 2011.

Total comprehensive income and profit for the year

As a result of the factors discussed above, the total comprehensive income and the profit for the year attributable to the owners of our Company for FY 2012 was RMB59.6 million and RMB44.0 million, respectively, representing a decrease of approximately 27.7% and 46.6% as compared to RMB82.4 million and RMB82.4 million, respectively, for FY 2011.

Liquidity and financial resources

Working capital

We mainly rely on internally generated operating cash flow and credit facilities provided by our principal bankers to meet our working capital requirement. We had bank balances and cash, including restricted bank deposits, of approximately RMB1,420.8 million as at 31 December 2012, representing an increase of RMB237.1 million as compared with that of RMB1,183.7 million as at 31 December 2011.

Inventories increased from RMB625.1 million as at 31 December 2011 to RMB656.5 million as at 31 December 2012. Its turnover day increased from 74 days for FY 2011 to 78 days for FY 2012. The increase in inventories was mainly due to our strategy in storing up recovered paper and kraft pulp at optimal level to minimise the negative effect arising from the fluctuation in the price of raw materials.

Trade receivables increased from RMB362.3 million as at 31 December 2011 to RMB392.5 million as at 31 December 2012. The turnover days of trade receivables for FY 2012 was 39 days, which was generally in line with 30 to 45 days credit period given to our Group's customers and comparable to 35 days for FY 2011.

As at 31 December 2012, we recorded net current liabilities of RMB1,471.0 million (as at 31 December 2011: RMB1,088.7 million). The current ratio was 0.71 times and 0.75 times, respectively, as at 31 December 2012 and 2011. On 9 January 2013, our Group has issued short-term financing notes of RMB300 million with a validity period of 365-day to repay existing short term bank loans with higher interest bearing. Such replacement of existing short term bank loan by 365-day financing notes would improve our liquidity for the year ending 31 December 2013. We also possessed sufficient cash resources from operating cash inflow and available banking facilities to meet our Group's working capital requirement.

We have no significant capital expenditure for business expansion in 2013. It is expected that most of operating cash inflow will be utilised to repay bank borrowings in order to improve our financial position. Meanwhile, we will continue to adjust the mix of short term and long term borrowings to optimise our debt structure.

Cashflow

We recorded an impressive improvement in net cash inflows from operation from RMB291.7 million for FY 2011 to RMB464.9 million for FY 2012. The increase in net cash inflows from operation reflected our effective monitoring in working capital management. Cash inflows from financing activities decreased from RMB663.8 million for FY 2011 to RMB461.6 million for FY 2012. Cash outflows for investing activities also decreased from RMB932.9 million for FY 2011 to RMB916.4 million for FY 2012. The combined effect of the above resulted in a net increase of cash and cash equivalents of RMB10.1 million for FY 2012 (FY 2011: RMB22.6 million).

Gearing

Our 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 120.8% as at 31 December 2012, representing a continuous improvement as compared to 140.5% as at 30 June 2012 and 129.2% as at 31 December 2011.

Capital expenditure

During FY 2012, our capital expenditure was approximately RMB190.0 million, which mainly relating to the renewal of our plant and machinery, and the construction of ancillary facilities.

Capital commitments and contingent liabilities

As at 31 December 2012, capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment was approximately RMB142.1 million.

As at 31 December 2012, our Group had no material contingent liabilities.

Pledge of assets

As at 31 December 2012, the aggregate carrying amount of our pledged was approximately RMB2,925.3 million.

Employees and remuneration policies

As at 31 December 2012, we employed approximately 3,000 full-time employees in the PRC and Hong Kong. The staff costs for FY 2012 were approximately RMB136.0 million, representing an increase of RMB17.6 million over FY 2011 of approximately RMB118.4 million. The emolument policy of the 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

(i) On 3 July 2012, Century Sunshine entered into a joint venture agreement (the "JV Agreement") with two independent third parties for the formation of the JV Company. The JV Company was established on 11 March 2013, in which we are interested as to 51% of its equity interest. Please refer to the circular of our Company dated 28 December 2012 regarding the formation of the joint venture.

(ii) Century Sunshine has obtained a notification of acceptance from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) accepting the registration of the short-term financing notes of Century Sunshine on 28 December 2012. The registered amount is RMB600 million and the validity period of the registered amount is 2 years from the date of issue of the notification of acceptance. On 9 January 2013, Century Sunshine has completed the issue of the first tranche of the short-term financing notes with an aggregate principal amount of RMB300 million for a 365-day term. The short-term financing notes is interest bearing at a fixed rate of 5.65% per annum.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY 2012, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of their respective securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

Our Company is committed to achieve high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Old CG Code") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "New CG Code") during the period from 1 April 2012 to 31 December 2012 contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code Provision A2.1 of the Old CG Code from 1 January to 31 March 2012.

Code Provision A2.1 of both the Old CG Code and the New CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive and Mr. Wang Dongxing is the chairman of our Board. He has been the general manager of Century Sunshine, the principal operating subsidiary of our Group until 31 March 2012. In view of Mr. Wang's extensive experience in the paper industry, our Board considers that it was in the interest of our Group and the shareholders of our Company as a whole for him to be given the overall management responsibility of our Group during his tenure of office as the general manager of Century Sunshine until his resignation from such role on 31 March 2012. Our Board considers that vesting the roles of chairman of our Board and functions of chief executive of our Company in the same person, namely, Mr. Wang Dongxing, was appropriate to our Company at the time and believes such arrangement did not result in any material adverse impact to the efficiency of operation and management of our Company during the period.

Mr. Ci Xiaolei has been appointed as the general manager of Century Sunshine to replace Mr. Wang Dongxing on 31 March 2012 and since then, our Company has complied with Code Provision A2.1 of the Old CG Code and the New CG Code.

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 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 FY 2012.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise our Company's financial reporting process and internal control system, and provide advice and comments to our Board. Our Company's audit committee, comprising Mr. Leung Ping Shing (Chairman), Mr. Wang Zefeng and Mr. Xu Ye, has reviewed our consolidated financial statements for FY 2012 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.

FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the FY 2012 (FY 2011: HK$0.025 per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of our Company will be closed from 21 May 2013 to 23 May 2013, both days inclusive, for the purpose of determining entitlement to attend the 2012 annual general meeting of the Company expected to be held on 23 May 2013 (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 of our Company 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 1712–16, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 20 May 2013.

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.

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 FY 2012 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) will be dispatched to the shareholders of our Company 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 shareholders of our Company, 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

Hong Kong, 26 March 2013

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

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Ci Xiaolei*
Non-executive Directors:	*Mr. Xu Fang and Mr. Wang Junfeng*
Independent non-executive Directors:	*Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye*

* *For identification purpose*