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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 FINANCIAL YEAR ENDED 31 DECEMBER 2011

ANNUAL RESULTS

The board (the “Board”) of directors (“Directors”) of China Sunshine Paper Holdings Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2011, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December

		2011	2010
	Notes	RMB'000	RMB'000
Revenue	4	3,721,189	2,456,540
Cost of sales		<u>(3,095,052)</u>	<u>(2,001,089)</u>
Gross profit		626,137	455,451
Other income, gains and losses	5	82,429	95,870
Distribution and selling expenses		(204,263)	(122,143)
Administrative expenses		(131,156)	(116,281)
Change in fair value of derivative financial instruments		691	(9,114)
Finance costs	6	<u>(258,141)</u>	<u>(101,015)</u>
Profit before tax	7	115,697	202,768
Income tax expense	8	<u>(27,188)</u>	<u>(28,446)</u>
Profit and total comprehensive income for the year		<u><u>88,509</u></u>	<u><u>174,322</u></u>
Profit and total comprehensive income for the year attributable to			
Owners of the Company		82,402	169,614
Minority interests		<u>6,107</u>	<u>4,708</u>
		<u><u>88,509</u></u>	<u><u>174,322</u></u>
Earnings per share			
– Basic (RMB)	10	0.10	0.21
– Diluted (RMB)		<u>0.10</u>	<u>0.21</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		3,387,027	3,318,963
Prepaid lease payments		169,787	171,302
Goodwill		18,692	18,692
Deferred tax assets		8,540	7,598
Deposit for acquisition of property, plant and equipment		50,000	—
		<u>3,634,046</u>	<u>3,516,555</u>
Current assets			
Prepaid lease payments		3,465	3,686
Inventories	11	625,107	545,481
Trade receivables	12	362,326	190,467
Bills receivable	13	783,666	1,236,783
Prepayments and other receivables		384,637	283,836
Income tax recoverable		1,208	—
Restricted bank deposits		935,471	412,687
Bank balances and cash		248,278	225,677
		<u>3,344,158</u>	<u>2,898,617</u>
Current liabilities			
Trade payables	14	551,362	1,110,936
Bills payable	15	206,500	—
Other payables		180,011	92,672
Payable for construction work, machinery and equipment		156,160	307,044
Income tax payable		783	21,692
Obligations under finance leases – current portion	16	53,624	42,214
Deferred income – current portion		1,995	2,073
Derivative financial instruments		1,380	2,242
Discounted bill financing	17	1,188,542	688,735
Bank borrowings – due within one year	18	2,078,456	1,419,074
Other borrowings		14,000	14,000
		<u>4,432,813</u>	<u>3,700,682</u>
Net current liabilities		<u>1,088,655</u>	<u>802,065</u>
Total assets less current liabilities		<u>2,545,391</u>	<u>2,714,490</u>
Capital and reserves			
Share capital		72,351	72,351
Reserves		1,368,855	1,318,407
Equity attributable to owners of the Company		1,441,206	1,390,758
Minority interests		73,155	53,987
Total equity		<u>1,514,361</u>	<u>1,444,745</u>
Non-current liabilities			
Obligations under finance lease – non-current portion	16	170,656	177,389
Bank borrowings – due after one year	18	823,120	1,055,681
Deferred income – non-current portion		27,371	27,495
Deferred tax liabilities		9,883	9,180
		<u>1,031,030</u>	<u>1,269,745</u>
Total equity and non-current liabilities		<u>2,545,391</u>	<u>2,714,490</u>

Note:

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is a public limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 RMB1,088,655,000 as at 31 December 2011. The directors are of the opinion that, taking into account the present available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of issuance of these consolidated financial statements. Hence, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION

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

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.

4. SEGMENT INFORMATION

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

For the year ended 31 December 2011

	White top linerboard <i>RMB'000</i>	Paper products Light- coated linerboard <i>RMB'000</i>	Core board <i>RMB'000</i>	Specialized paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>1,221,544</u>	<u>1,511,551</u>	<u>600,111</u>	<u>273,625</u>	<u>597,811</u>	<u>4,204,642</u>
Segment profit	<u>197,745</u>	<u>193,834</u>	<u>136,287</u>	<u>86,103</u>	<u>42,867</u>	<u>656,836</u>

For the year ended 31 December 2010

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

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

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

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

(b) Information about major customers

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

(c) Geographical information

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

5. OTHER INCOME, GAINS AND LOSSES

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	107,027	91,403
Retirement benefits schemes contributions	10,975	10,187
Equity-settled share-based payment	444	713
	<u>118,446</u>	<u>102,303</u>
Total staff costs (including directors emoluments)		
	<u>118,446</u>	<u>102,303</u>
Cost of inventories recognised as an expense	3,000,947	1,909,855
Depreciation of property, plant and equipment	169,417	90,464
Reversal of allowance for trade receivables	(242)	(522)
Allowance for inventory	–	123
Release of prepaid lease payments	3,716	2,439
Auditor's remuneration	1,400	1,392
	<u>3,184,838</u>	<u>2,004,551</u>

8. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax		
PRC enterprise income tax	27,427	25,177
Deferred tax (credit) charge	(239)	3,269
	<u>27,188</u>	<u>28,446</u>

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

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

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

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

9. DIVIDENDS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Dividends declared for distribution during the year:		
2010 final dividend – RMB0.042 per share		
(2010: 2009 final dividend – RMB0.021 per share)	<u>33,404</u>	<u>8,397</u>

A final dividend of RMB0.021 per share in respect of the year ended 31 December 2011 (2010: final dividend of RMB0.042 per share in respect of the year ended 31 December 2010), based on 802,588,000 shares (2010: 802,588,000 shares) of the Company as at 31 December 2011, in total RMB16,854,348 has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

Earnings

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Earnings for the purposes of basic earnings per share		
(profit for the year attributable to owners of the Company)	<u>82,402</u>	<u>169,614</u>

Number of shares

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

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

11. INVENTORIES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Raw materials	377,888	393,071
Finished goods	247,219	152,410
	<u>625,107</u>	<u>545,481</u>

12. TRADE RECEIVABLES

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

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

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

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.

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

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

13. BILLS RECEIVABLE

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Bills receivable	<u>783,666</u>	<u>1,236,783</u>

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

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

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

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

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

14. TRADE PAYABLES

An analysis of trade payables is as follows:

	2011 RMB'000	2010 <i>RMB'000</i>
Trade payables to third parties	551,362	1,110,936

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

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

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

15. BILLS PAYABLE

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

	2011 RMB'000	2010 <i>RMB'000</i>
0–90 days	146,500	–
91–180 days	60,000	–
	<u>206,500</u>	<u>–</u>

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

16. OBLIGATIONS UNDER FINANCE LEASE

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

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

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

17. DISCOUNTED BILL FINANCING

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Discounted bill financing	<u><u>1,188,542</u></u>	<u><u>688,735</u></u>
Comprising:		
Discounted bill receivable from third party	226,442	119,735
Discounted bill receivable from subsidiaries of the Company	<u>962,100</u>	<u>569,000</u>
Total	<u><u>1,188,542</u></u>	<u><u>688,735</u></u>

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

18. BANK BORROWINGS

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

BUSINESS REVIEW AND OUTLOOK

Operation

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

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

In December 2011, our Group has successfully bid in an open auction for certain production facilities with an annual designed production capacity of approximately 35,000 tons of decorative paper, and other auxiliary equipment. For details of the acquisition, please refer to the announcements of the Company dated 19 December 2011, 20 December 2011 and 24 February 2012. The domestic demand of decorative paper is less affected by the European sovereign debt crisis. Our Directors believe that the accelerated urbanization and the faster pace of the construction of economically affordable housing in China provide sustained driving forces for growth of the decorative paper. It is expected that the acquisition will be completed in the second quarter of 2012, and the commercial production of decorative paper will commence thereafter. We believe the acquisition will allow our Group to offer a broader spectrum of paper products and further enhance our Group’s operating result.

Production facilities and recovered paper collection points

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

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

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

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

Outlook

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue and ASP

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

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

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

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

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

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

* *approximate number*

Cost of sales

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

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

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

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

Gross profit and gross profit margin

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

Other profit and loss items

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

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

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

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

Income tax expenses

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

Profit and total comprehensive income

As a result of the factors discussed above, the net profit and the profit attributable to the owners of our Company for FY 2011 was RMB88.5 million and RMB82.4 million, respectively, representing a decrease of approximately 49.2% and 51.4% as compared to RMB174.3 million and RMB169.6 million, respectively, for FY 2010.

Liquidity and financial resources

Working capital

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

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

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

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

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

Cashflow

Our Group have recorded a positive operating cash flows for FY 2011 after three consecutive years negative operating cash flows since the fiscal year 2008. Net cash inflows from operation showed an impressive improvement from cash outflows of RMB9.9 million for FY 2010 to cash inflows of RMB291.7 million for FY 2011. The improvement was mainly driven by the commercial operation of PL5 and the implementation of stringent working capital management during FY 2011. Our Group recorded a net increase in cash and cash equivalents of RMB22.6 million during FY 2011, representing a combined effect of operating cash inflows from operation of RMB291.7 million, cash inflows from financing activities of RMB663.8 million, and cash outflows for investing activities of RMB932.9 million.

Gearing

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

Capital expenditure

During FY 2011, the capital expenditure of our Group was approximately RMB249.2 million, which was mainly relating to PL5 and its related ancillary facilities.

Capital commitments and contingent liabilities

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

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

Pledge of assets

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

Employees and remuneration policies

As at 31 December 2011, our Group employed approximately 3,000 full-time employees in the PRC and Hong Kong. The staff costs for FY 2011 were approximately RMB118.4 million, representing an increase of RMB16.1 million over FY 2010. 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 Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our Group's business development, so as to achieve our Group's operational targets.

Subsequent Events

On 8 December 2011, Shandong Century Sunshine Paper Group Co., Ltd. ("Shandong Sunshine"), a subsidiary of the Company, has successfully won the bid in an open auction for the assets that included land use rights, buildings and production facilities (the "Assets") of Arjowiggins Chenming Speciality Papers Co., Ltd. (阿爾諾維根斯晨鳴特種紙有限公司), a sino-foreign equity joint venture in the PRC ("Arjowiggins Chenming"). The final bid price of RMB203 million was the successful bid submitted by Shandong Sunshine under the auction. As of 31 December 2011, the Company has paid an aggregate of RMB50 million as part of the bid price for the successful bid.

For details of the auction, please refer to the announcements of the Company dated 19 December 2011, 20 December 2011 and 24 February 2012.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of their respective securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

Our Company has complied with all code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during FY 2011, except for the deviation from code provision A2.1 under the CG Code. Code provision A2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently, our Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman of the Board, an executive director of our Company and also the general manager of Shandong Century Sunshine Paper Group Co., Ltd, the principal operating subsidiary and the immediate holding company of the subsidiaries of our Group in China.

In addition to such roles, with Mr. Wang's extensive experience in the paper industry, our Board considers that it is in the interest of our Group and the shareholders of our Company (the "Shareholders") as a whole for him to be given the overall management responsibility of our Group. The Board considers that vesting the roles of chairman and functions of chief executive officer in the same person, namely Mr. Wang Dongxing, is appropriate for our Company at this stage and believes that such arrangement will not result in any material adverse impact to the efficiency of operation and management of our Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding 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 2011.

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 the Board. Our Company's audit committee, comprising Mr. Leung Ping Shing (Chairman), Mr. Wang Zefeng and Mr. Xu Ye, has reviewed our Group's audited consolidated financial statements for FY 2011 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 AND CLOSURE OF REGISTER OF MEMBERS

The register of members of our Company will be closed from Monday, 21 May 2012 to Thursday, 24 May 2012, both days inclusive, for the purpose of determining Shareholders' entitlement to attend the 2011 annual general meeting of the Company expected to be held on Thursday, 24 May 2012 (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 share registrar, 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 Friday, 18 May 2012.

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.

The Board has resolved to recommend the payment of a final dividend of HK\$0.025 per share for FY 2011 (FY 2010: HK\$0.05 per share), subject to approval of the Shareholders at the AGM. The register of members of the Company will be closed from Wednesday, 30 May 2012 to Friday, 1 June 2012, both days inclusive, and the proposed final dividend is expected to be paid on or before Tuesday, 12 June 2012. In order to qualify for the proposed final dividend, Shareholders should deliver share certificates together with transfer documents to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 29 May 2012.

PUBLICATION OF RESULTS

This announcement of results has been published on the websites of the Company (www.sunshinepaper.com.cn) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the FY 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the website of the Stock Exchange in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all 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

Hong Kong, 27 March 2012

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

<i>Executive Directors:</i>	<i>Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong</i>
<i>Non-executive Directors:</i>	<i>Mr. Xu Fang and Mr. Wang Junfeng</i>
<i>Independent non-executive Directors:</i>	<i>Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye</i>

* *For identification purpose*