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 2010

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 2010, as follows:

FINANCIAL HIGHLIGHTS

Turnover and profit attributable to the owners of the Company for the year ended 31 December 2010 both reached historical high of RMB2,456.5 million and RMB169.6 million, respectively.

Earnings per share for the year ended 31 December 2010 increased to RMB0.21, representing an increase of approximately 320% as compared with the year ended 31 December 2009.

Final dividend for the year ended 31 December 2010 of HK$5.0 cents per share was proposed.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December

	Notes	2010 RMB'000	2009 RMB'000
Revenue	4	**2,456,540**	1,697,678
Cost of sales		**(2,001,089)**	(1,461,330)
Gross profit		**455,451**	236,348
Other income, gains and losses		**95,870**	67,337
Distribution and selling expenses		**(122,143)**	(104,460)
Administrative expenses		**(116,281)**	(75,245)
Change in fair value of derivative financial instruments		**(9,114)**	(7,134)
Finance costs		**(101,015)**	(58,557)
Profit before tax	5	**202,768**	58,289
Income tax expense	6	**(28,446)**	(10,826)
Profit and total comprehensive income for the year		**174,322**	47,463
Profit and total comprehensive income for the year attributable to			
Owners of the Company		**169,614**	42,147
Minority interests		**4,708**	5,316
		174,322	47,463
Earnings per share			
— Basic *(RMB)*			Restated
	8	**0.21**	0.05
— Diluted *(RMB)*		**0.21**	0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment		**3,318,963**	1,897,055
Prepaid lease payments		**171,302**	90,650
Goodwill		**18,692**	18,692
Deferred tax assets		**7,598**	9,910
		3,516,555	2,016,307
Current assets			
Prepaid lease payments		**3,686**	1,969
Inventories	*9*	**545,481**	400,075
Trade receivables	*10*	**190,467**	137,919
Bills receivable	*11*	**1,236,783**	533,115
Prepayments and other receivables		**283,836**	56,745
Restricted bank deposits		**412,687**	363,961
Bank balances and cash		**225,677**	357,505
		2,898,617	1,851,289
Current liabilities			
Trade payables	*12*	**1,110,936**	356,650
Bills payable		**—**	10,000
Other payables		**92,672**	81,689
Payable for construction work, machinery and equipment		**307,044**	192,789
Income tax payable		**21,692**	7,045
Obligations under finance leases — current portion	*13*	**42,214**	—
Deferred income — current portion		**2,073**	1,925
Derivative financial instruments		**2,242**	4,998
Discounted bill financing	*14*	**688,735**	126,606
Bank borrowings — due within one year		**1,419,074**	1,152,506
Other borrowings		**14,000**	17,442
		3,700,682	1,951,650
Net current liabilities		**(802,065)**	(100,361)
Total assets less current liabilities		**2,714,490**	1,915,946
Capital and reserves			
Share capital		**72,351**	37,872
Reserves		**1,318,407**	1,190,289
Equity attributable to owners of the Company		**1,390,758**	1,228,161
Minority interests		**53,987**	41,876
Total equity		**1,444,745**	1,270,037
Non-current liabilities			
Obligations under finance lease — non-current portion	*13*	**177,389**	—
Bank borrowings — due after one year		**1,055,681**	610,401
Deferred income — non-current portion		**27,495**	27,285
Deferred tax liabilities		**9,180**	8,223
		1,269,745	645,909
Total equity and non-current liabilities		**2,714,490**	1,915,946

Notes

1. General

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is a 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 holding company is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands) and its ultimate holding company 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 RMB802,065,000 as at 31 December 2010. The directors are of the opinion that, taking into account the present available bank loan 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 the financial statements. Hence, the financial statements have been prepared on a going concern basis.

2. Adoption 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 International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are or have become effective.

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of Non-cash Assets to Owners

For financial statements with year ended 31 December 2010, the following are new or revised standards, amendments, interpretations that have been issued but not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 February 2010

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may have a significant impact on amounts reported respect of the Group's financial assets and are in the process of assessing the financial impact.

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

3. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments which are measured at fair value.

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. Revenue and segment information

(a) Operating segments

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

For the year ended 31 December 2010

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

For the year ended 31 December 2009

	Paper products						
	White top linerboard *RMB'000*	Light-coated linerboard *RMB'000*	Core board *RMB'000*	Specialized paper products *RMB'000*	Sales of raw materials *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
Revenue from external customers	785,518	360,633	357,726	110,916	—	82,885	1,697,678
Inter-segment revenue	—	—	—	—	—	238,796	238,796
Segment revenue	785,518	360,633	357,726	110,916	—	321,681	1,936,474
Segment profit	110,208	69,602	38,456	7,789	—	34,676	260,731

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

	2010 *RMB'000*	2009 *RMB'000*
Profit		
Segment profit	**467,714**	260,731
Unrealised profit on inter-segment sales	**(36,110)**	(42,126)
	431,604	218,605
Distribution and selling expenses	**(122,143)**	(104,460)
Administrative expenses	**(103,642)**	(66,503)
Other income, gains and losses	**91,777**	66,196
Finance cost	**(85,714)**	(48,415)
Change in fair value of derivative financial instruments	**(9,114)**	(7,134)
Consolidated profit before taxation	**202,768**	58,289

No segment assets and liabilities, and related other segment information were presented as no such discrete information are regularly 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. Profit before tax

	2010 *RMB'000*	2009 *RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Wages and salaries	**91,403**	62,588
Retirement benefits schemes contributions	**10,187**	5,423
Equity-settled share-based payment	**713**	(5,523)
Total staff costs (including directors emoluments)	**102,303**	62,488
Cost of inventories recognised as an expense	**1,909,855**	1,394,077
Depreciation of property, plant and equipment	**90,464**	75,601
Revesal of allowance for trade receivables	**(522)**	—
Allowance for inventory	**123**	682
Release of prepaid lease payments	**2,439**	1,911
Auditor's remuneration	**1,392**	1,459

6. Income tax expense

	2010	2009
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**25,177**	11,570
Deferred tax charge (credit)	**3,269**	(744)
	28,446	10,826

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 is 25% from 1 January 2008 onwards.

In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the New Law and will have an impact on foreign investment enterprises ("FIE"). Enterprises which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of tax reductions and exemptions, such as the "two-year tax exemption followed by three-year 50% tax reduction", shall continue to enjoy preferential treatment for their initial term as prescribed under the previous tax laws, administrative regulations and related documents after the New Law takes effect until the initial term expires. 山東世紀陽光紙業有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) ("Century Sunshine") and 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), the PRC subsidiaries of the Company, were levied at 12.5% (2009: 12.5%) for the year ended 31 December 2010 based on relevant tax circulars.

In 2010, 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 2011.

No provision for Hong Kong Profit Tax has been made for the year ended 31 December 2009 and 2010 as the Group did not have any assessable profit during both years.

7. Dividend

	2010	2009
	RMB'000	*RMB'000*
Dividends declared for distribution during the year:		
2009 final dividend — RMB2.1 cents per share (2009: 2008 final dividend — RMB3.2 cents per share)	**8,397**	12,727

A final dividend of HK$5.0 cents per share in respect of the year ended 31 December 2010 (2009: final dividend of RMB2.1 cents per share in respect of the year ended 31 December 2009), based on 802,588,000 shares as at 31 December 2010 (2009: 401,044,000 shares), has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

8. 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

	2010	2009
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	**169,614**	42,147

Number of shares

	2010	2009 *(Restated)*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**802,100,329**	802,088,000
Effect of dilutive potential ordinary shares: Share options	**78,133**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**802,178,462**	802,088,00

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 for the year ended 31 December 2009 did not assume the exercise of share options as the exercise prices of share options were higher than the average market price during that year.

9. Inventories

	2010 *RMB'000*	2009 *RMB'000*
Raw materials	**393,071**	277,587
Finished goods	**152,410**	122,488
	545,481	400,075

10. Trade receivables

The Group normally allows a credit period of 30 to 60 days to its trade customers with trading history, otherwise sales on cash terms are required. The Group's sales to related parties are entered into on the same credit terms of sales to other customers.

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

	2010 *RMB'000*	2009 *RMB'000*
0–30 days	**139,171**	97,721
31–90 days	**39,612**	29,024
91–365 days	**9,510**	9,097
Over 1 year	**2,174**	2,077
	190,467	137,919

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 RMB17,495,000 (2009: RMB39,014,000) 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.

11. Bills receivable

	2010	2009
	RMB'000	*RMB'000*
Bills receivable	**1,236,783**	533,115

During the year, the Group has discounted bills receivable of RMB119,735,000 (2009: RMB126,606,000) 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 RMB859,826,000 (2009: RMB251,524,000) was endorsed with recourse to third parties at 31 December 2010 and corresponding trade payables of RMB859,826,000 (2009: RMB251,524,000) were included in the consolidated statement of financial position accordingly.

12. Trade payables

An analysis of trade payables is as follows:

	2010	2009
	RMB'000	*RMB'000*
Trade payables to third parties	**1,110,936**	356,650

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:

	2010	2009
	RMB'000	*RMB'000*
0–90 days	**432,730**	195,452
91–365 days	**640,698**	153,284
Over 1 year	**37,508**	7,914
	1,110,936	356,650

13. 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. This was recognised as finance lease.

	2010	2009
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current liabilities	**42,214**	—
Non-current liabilities	**177,389**	—
	219,603	—

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

14. Discounted bill financing

	2010	2009
	RMB'000	*RMB'000*
Discounted bill financing	**688,735**	126,606

Discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse.

BUSINESS REVIEW AND OUTLOOK

Operation

Our Group has faced both opportunities and challenges in 2010. As one of the largest white top linerboard and light-coated linerboard manufacturers in terms of production volume in China (for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan), our Group continued to enjoy the increasing demand for packaging papers for consumer products. On the other hand, the increasing raw material costs, high inflation and strict environmental regulations remained the challenges of our Group.

In 2010, our Group continued to focus on our core paper products, in particular white top linerboard and light-coated linerboard. Our Directors believe that our Group is well-positioned to ride on the robust domestic consumption because target customers of white top linerboard and light-coated linerboard are the food and beverage companies in China. Quality of our products has also lead to their increasing popularity in the market. With well-position in the packaging paper manufacturing industry and a prominent customer base, the revenue of our Group reached its historical high in 2010.

We saw an uptrend in the prices of recovered paper and kraft pulp in 2010, just more of the same as other commodities which eroded part of our profit margin. We demonstrated our experience in raw material procurement and strictly implemented cost control measures to tackle the cost pressure. By increasing the selling price of paper products and leveraging on the cost advantages from economies of scale, the gross profit margin of our Group's paper products recorded a 4.8 percentage increase, from 13.8% in 2009 to 18.6% in 2010.

Production facilities and recovered paper collection points

The actual production capacity of our Group in 2010 was approximately 640,000 tons, representing a utilization rate of 98.5% of its total designed production capacity of 650,000 tons of our four production lines in operation in 2010. Our Group's designed annual production capacity has recently increased to approximately 1.15 million tons with the additional 500,000 tons designed annual production capacity of light-coated linerboard from the new production line which has commenced its commercial production in March 2011 after its four months trial run (the "PL 5").

Production line	Location	Products	Designed annual production capacity (tons)
PL 1	Weifang	White top linerboard	110,000
PL 2	Weifang	White top linerboard and light-coated linerboard*	220,000
PL 3	Weifang and Kunshan	Specialized paper products	60,000
PL 4	Weifang	Core board	260,000
PL 5	Weifang	White top linerboard and light-coated linerboard*	500,000
Total			1,150,000

* Production of white top linerboard and light-coated linerboard is interchangeable

Approximately two-thirds of the recovered paper consumed by our Group was sourced in China ("domestic recovered paper") while the remaining one-third of the recovered paper consumed was mainly sourced from the United States of America ("overseas recovered paper"). Currently, our Group has 8 recovered paper collection points spanning across Northern China and Northeast China. Approximately 40% of domestic recovered paper consumed by our Group was directly sourced from our Group's recovered paper collection points. Looking ahead, we expect the proportion of the domestic recovered paper directly sourced from our recovered paper collection points will steadily increase.

Recovered paper collection points are strategically located for convenient transportation of raw materials to our Group's production base in Shandong province. We will continue to consolidate existing recovered paper collection points and to establish new recovered paper collection points in various second-tier cities in China.

ERP system to enhance production efficiency

The production efficiency of our Group showed continuous improvement after the implementation of enterprise resource planning (ERP) system in 2008. After nearly three-year implementation of ERP in production, our Group now enjoys a high production efficiency in keeping optimized inventory level, minimizing wastage, and reducing impediments during production, which in turn increases production volumes.

Outlook

2011 is the first year of the 12th Five Year Plan in China, which brings both opportunities and challenges to the packaging paper industry. On the one hand, it emphasizes in shifting from investment towards consumption and accelerating the process of urbanization, which in turn will bring opportunities to further expand domestic consumption for the packaging paper industry. On the other hand, it continues to advocate objectives set out in the 11th Five Year Plan as to enhance environmental protection, which, on the contrary, is expected to lead to more stringent environmental regulations for the packaging paper industry.

PL 5 with 500,000 tons designed production capacity has commenced its commercial production in March 2011. Along with the 650,000 tons designed production capacity from the existing four production lines in 2010, which had a utilization rate of 98.5%, it is expected that the actual production capacity for 2011 will be significantly higher than that for 2010. We believe such increase in production capacity will not only enlarge our market share in packaging paper industry, but also allow us further benefit from economies of scale in procurement and production.

Divergence in financial performance by industry players are expected in 2011. Our Group is confident that we can sustain stable growth in the coming few years by riding on the continuous increase of domestic consumption in China and enhancing our competitive edge through economies of scale production.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue and ASP

Our Group's total revenue for the year ended 31 December 2010 ("FY 2010") reached its historical high of RMB2,456.5 million, representing an increase of approximately 44.7% as compared to RMB1,697.7 million for the year ended 31 December 2009 ("FY 2009").

The core business of our Group remained manufacturing and sales of paper products. Sales of paper products, representing 93.4% of our Group's total revenue for FY2010, increased from RMB1,614.8 million for FY 2009 to RMB2,293.4 million for FY 2010. Such increase was driven by both the increase in the average selling price ("ASP") and sales volume of our paper products. The remaining 6.6% of our Group's total revenue represented the sales of raw materials, electricity and steam.

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

		FY 2010			FY 2009	
		Gross profit			Gross profit	
	RMB'000	**margin *(%)***	*%*	*RMB'000*	margin *(%)*	*%*
White top linerboard	**891,472**	**19.0**	**36.3**	785,518	14.2	46.3
Light-coated linerboard	**623,808**	**26.0**	**25.4**	360,633	18.4	21.2
Core board	**540,087**	**12.6**	**22.0**	357,726	10.9	21.1
Specialized paper products	**238,008**	**11.3**	**9.7**	110,916	5.8	6.5
Subtotal for sales of paper products	**2,293,375**	**18.6**	**93.4**	1,614,793	13.8	95.1
Sales of raw materials	**60,666**	**26.9**	**2.5**	—	—	—
Sales of electricity and steam	**102,499**	**12.6**	**4.1**	82,885	15.1	4.9
Total revenue of the Group	**2,456,540**	**18.5**	**100.0**	1,697,678	13.9	100.0

Driven by the strong demand and high recognition of our paper products by existing and new customers, the ASP of our Group's core paper products, namely white top linerboard, light-coated linerboard and core board, recorded a sharp increase in FY 2010. In particular light-coated lineboard, being a niche product in the market, brought prosperous return and its ASP reached its historical high of RMB4,230 per ton in FY 2010.

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

	FY 2010 *(per ton)*	FY 2009 *(per ton)*	**Percentage increase**
White top linerboard	**3,840**	3,150	21.9%
Light-coated linerboard	**4,230**	3,250	30.2%
Core board	**2,460**	2,030	21.2%

Notes: We believe the ASP of specialized paper products is not meaningful since it had a broad range of paper products that vary significantly in their ASP.

Cost of sales

Our Group's total cost of sales increased by 36.9%, from RMB1,461.3 million for FY 2009 to RMB2,001.1 million for FY 2010, which was in line with the increase in our Group's total revenue for FY 2010.

With respect to the paper products segment, cost of sales increased by RMB476.2 million, or 34.2%, to RMB1,867.2 million for FY 2010 from RMB1,391.0 million for FY 2009. Raw material costs, which made up the largest portion of cost of sales, increased by 43.2% to RMB1,461.1 million for FY 2010 from RMB1,020.5 million for FY 2009. The increase in raw material costs reflected the increase in production volume and a rebound in the purchase prices of domestic recovered paper and overseas recovered paper in the second half of 2010. Overhead costs mainly comprised of depreciation, energy cost, consumables and maintenance cost. The increase in overhead costs by 9.5% to RMB370.9 million for FY 2010 from RMB338.6 million for FY 2009 was primary due to the increase in the production volume in FY 2010. Labour costs increased by 10.4% to RMB35.2 million for FY2010 from RMB31.9 million for FY2009. The increase was driven by the increase in number of staff and the increase in the average salary per head count.

The following table sets out the breakdown of our Group's cost of sales for FY 2010 and FY 2009:

	FY 2010		FY 2009	
	RMB'000	*%*	*RMB'000*	*%*
Sales of paper products segment				
Raw materials cost				
Domestic recovered paper	**645,070**	**34.5**	430,800	31.0
Overseas recovered paper	**334,465**	**17.9**	205,920	14.8
Kraft pulp	**280,308**	**15.0**	193,897	13.9
Chemicals and others	**201,187**	**10.8**	189,842	13.7
	1,461,030	**78.2**	1,020,459	73.4
Overhead costs	**370,889**	**19.9**	338,599	24.3
Labour costs	**35,243**	**1.9**	31,903	2.3
	1,867,162	**100.0**	1,390,961	100.0
Sales of raw materials segment	**44,334**	**100.0**	—	—
Sales of electricity and steam segment	**89,593**	**100.0**	70,369	100.0
Total cost of sales	**2,001,089**	**100.0**	1,461,330	100.0

Gross profit and gross profit margin

As a result of the foregoing factors, the gross profit increased by RMB219.2 million, or 92.8% from RMB236.3 million for FY2009, to RMB455.5 million for FY 2010. The overall gross profit margin of our Group was 18.5% for FY 2010, as compared to 13.9% for FY 2009.

With respect to the paper products segment, as a result of the increase in ASP of paper products outweighed the increase in its average costs, the gross profit margin of paper products increased from 13.8% for FY 2009 to 18.6% for FY 2010. In view of the strong demand from domestic consumption industry in which our key customers operate in and our cost control measures, the gross profit margin of our Group's two key paper products, white top linerboard and light-coated linerboard, were 19.0% and 26.0%, respectively for FY 2010, as compared to 14.2% and 18.4%, respectively for FY 2009.

Other profit and loss items

Other income, gains and losses were mainly comprised of interest income of RMB23.9 million (FY 2009: RMB11.2 million), government grants of RMB51.4 million (FY 2009: RMB50.8 million), mainly in relation to the valued-added tax refund for the sales of domestic recovered paper, and exchange gain of RMB11.5 million (FY 2009: RMB0.2 million).

Distribution and selling expenses primarily consisted of transportation cost and staff costs in relation to the sales representative offices carrying out various sales promotional and after sale services. Such expenses increased from RMB104.5 million for FY 2009 to RMB122.1 million for FY 2010, which was mainly driven by the increase in sales volume for FY 2010. As a percentage of total revenue, the distribution and selling expenses fell from 6.2% in FY 2009 to 5.0% in FY 2010.

Administrative expenses were RMB116.3 million for FY 2010 as compared to RMB75.2 million for FY 2009. The increase in administrative expenses reflected the additional staff costs to support the trial run of PL5 in the fourth quarter of 2010. The ratio of the administrative expenses to total revenue only increased from 4.4% in FY 2009 to 4.7% in FY 2010.

Finance costs were RMB101.0 million and RMB58.6 million, respectively, for FY 2010 and FY 2009. The increase in finance costs was primarily due to additional bank borrowings raised during FY 2010 to finance the construction of PL5 and to increase the cash level for working capital purpose.

Income tax expenses

Income tax expenses increased from RMB10.8 million for FY 2009 to RMB28.4 million for FY 2010. The increase was mainly due to a principal operating subsidiary has fully utilized its incentive of income tax deduction and was subject to a higher income tax rate in the second half of FY 2010. However, this subsidiary has been recognized as high technology enterprise and its applicable income tax rate is 15% with effect from the fiscal year 2011. Notwithstanding the increase in income tax expenses, our Group's effective tax rate decreased to 14.0% for FY 2010 from 18.6% for FY 2009.

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 2010 was RMB174.3 million and RMB169.6 million, respectively, representing an increase of approximately 2.67 times and 3.02 times as compared to RMB47.5 million and RMB42.1 million, respectively, for FY 2009.

Liquidity and financial resources

Working capital

Our Group generally finances its operation with its internally generated cash flow from operation and credit facilities provided by our principal bankers. As at 31 December 2010, the bank balances and cash, including restricted bank deposits, of our Group amounted to RMB638.4 million, representing a decrease of RMB83.1 million as compared with that of RMB721.5 million as at 31 December 2009.

Inventories increased by RMB145.4 million, from RMB400.1 million as at 31 December 2009 to RMB545.5 million as at 31 December 2010. The increase was mainly due to the fact that our Group has strategically stock-up raw materials for the commercial operation of PL 5 in the first quarter of 2011. Despite the increase in the absolute amount of inventories, the inventory turnover for FY 2010 was 99 days, which was comparable to 100 days for FY 2009.

Trade receivables and the trade receivables turnover were RMB190.5 million and 28 days, respectively, as at 31 December 2010, as compared to RMB137.9 million and 30 days, respectively, as at 31 December 2009.

Our Group recorded net current liabilities of RMB802.1 million as at 31 December 2010. It was mainly due to our Group relied on some short term bank borrowings to finance the capital expenditures for the purchase and upgrade of production facilities. The current ratio was 0.78 times and 0.95 times, respectively, as at 31 December 2010 and 2009. It is expected that there will be a fruitful operating cash inflow after the commercial operation of PL5 in 2011. Our Group advocates utilizing its operating cash inflow to repay bank borrowings in order to improve its financial position. Meanwhile, our Group will continue to adjust the mix of short term and long term borrowings to optimize our debt structure.

Cashflow and borrowings

During FY 2010, our Group recorded operating cash inflows before movements in working capital of RMB383.9 million (FY 2009: RMB182.6 million) and cash inflows from operation of RMB0.6 million (FY 2009: cash outflows RMB94.3 million), representing improvement in working capital management and positive operating results.

Our Group's net gearing ratio (calculated based on the total borrowings net of bank balances and cash, and restricted bank deposits divided by the total equity) as at 31 December 2010 increased to 128.1%, from 83.4% as at 31 December 2009. The increase was mainly due to the increase in bank borrowings to finance the construction of PL 5. Despite there was a higher net gearing ratio as at 31 December 2010, it was noticeable that the net gearing ratio has already showed an improvement as compared to 132.3% as at 30 June 2010.

As at 31 December 2010, our Group had bank balances and cash of RMB225.7 million, restricted bank deposits of RMB412.7 million and approximately RMB1,154.7 million of unutilized banking facilities. Our Group possesses sufficient financial resources to meet its commitments and working capital requirements.

Capital expenditure

During FY 2010, our Group's fixed assets increased by RMB1,505.4 million which were mainly for the construction of PL5 and its related production plant and facilities.

Capital commitments and contingent liabilities

Capital commitments in relation to capital expenditure contracted but not for provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment were RMB381.5 million as at 31 December 2010.

As at 31 December 2010, our Group had no material contingent liabilities.

Pledge of assets

As at 31 December 2010, the aggregate carrying amount of the assets of our Group pledged was RMB1,855.4 million.

Employees and remuneration policies

As at 31 December 2010, our Group had approximately 3,100 full-time employees. The staff costs for FY 2010 were approximately RMB102.3 million, representing an increase of RMB39.8 million over FY 2009. 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of their respective securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during FY2010, 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 separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman of the Board, an executive director of the 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 the Company 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 the 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 the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The 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 the Company to confirm that all Directors have complied with the Model Code during FY2010.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and provide advice and comments to the Board. The 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 FY2010 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with management and the Company's external auditors.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Directors proposed to declare a final dividend of HK$5.0 cents per share for FY 2010 (FY2009: HK$2.4 cents per share), which is subject to approval by shareholders of the Company at the 2010 annual general meeting (the "AGM").

The register of members of the Company will be closed from 20 May 2011 (Friday) to 25 May 2011 (Wednesday), both days inclusive, during which no transfer of shares of the Company will be registered. To qualify for the proposed dividend as well as attending and voting at the AGM, shareholders of the Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the 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 25 May 2011 (Wednesday). Members whose names appear on the register of members of the Company at the close of business on 19 May 2011 (Thursday) will be entitled to attend and vote at the AGM.

Format notice of the AGM will be published in due course.

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 FY2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company 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, 28 March 2011

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

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Yilong*
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*