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

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

TOUCH OF SUNSHINE

2010 Annual Report

*For identification purposes only

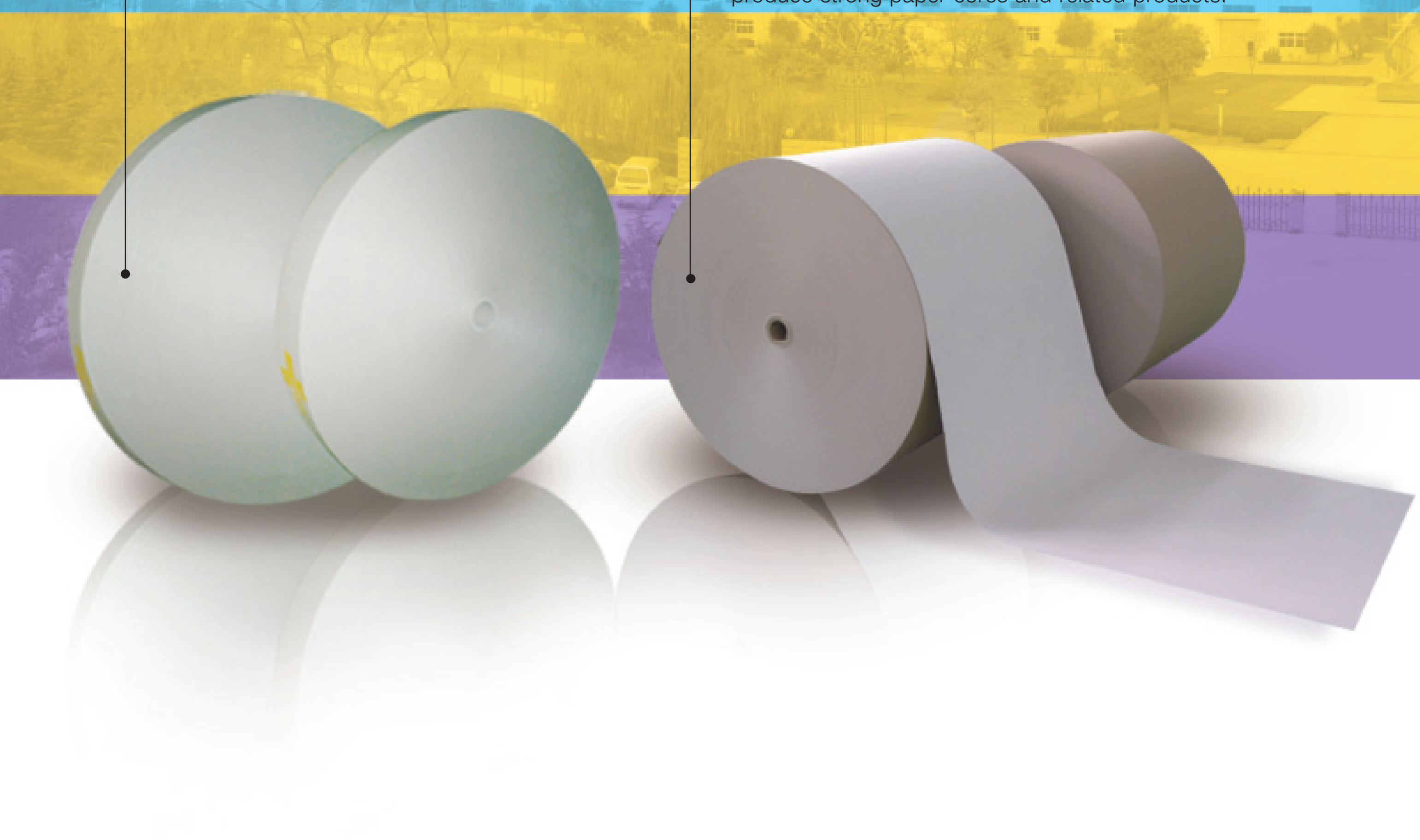
White top linerboard

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

Main Products

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

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



Contents

China Sunshine Paper Holdings Company Limited
2010 Annual Report

Touch of Sunshine

Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Directors

Mr. Wang Junfeng
Mr. Xu Fang

Independent Non-Executive Directors

Mr. Leung Ping Shing
(appointed on 25 November 2010)
Ms. Wong Wing Yee, Jessie
(resigned on 25 November 2010)
Mr. Wang Zefeng
Mr. Xu Ye

Audit Committee

Mr. Leung Ping Shing *(Chairman)*
(appointed on 25 November 2010)
Ms. Wong Wing Yee, Jessie *(Chairlady)*
(resigned on 25 November 2010)
Mr. Wang Zefeng
Mr. Xu Ye

Remuneration Committee

Mr. Wang Zefeng *(Chairman)*
Mr. Wang Dongxing
Mr. Leung Ping Shing
(appointed on 25 November 2010)
Ms. Wong Wing Yee, Jessie
(resigned on 25 November 2010)

Company Secretary

Mr. Ng Cheuk Him *CPA, ACS*

Authorised Representatives

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

Principal Place of Business in China

Changle Economic Development Zone
Weifang 262400
Shandong
China

Principal Place of Business in Hong Kong

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Hong Kong

Registered Office

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

Principal Share Registrar and Transfer Office in Cayman Islands

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

Hong Kong Share Registrar and Transfer Office

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

Auditor

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

Legal advisers as to the laws of Hong Kong

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

Stock Code

2002

Website

www.sunshinepaper.com.cn

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred as the "Group"), we are pleased to present the annual report of our Group for the financial year ended 31 December 2010.

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 report, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region 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. The directors of our Company (the "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[1]	220,000
PL 3	Weifang and Kunshan	Specialized paper products	60,000
PL 4	Weifang	Core board	260,000
PL 5[2]	Weifang	White top linerboard and light-coated linerboard[1]	500,000
Total			1,150,000

Notes:

(1) Production of white top linerboard and light-coated linerboard is interchangeable

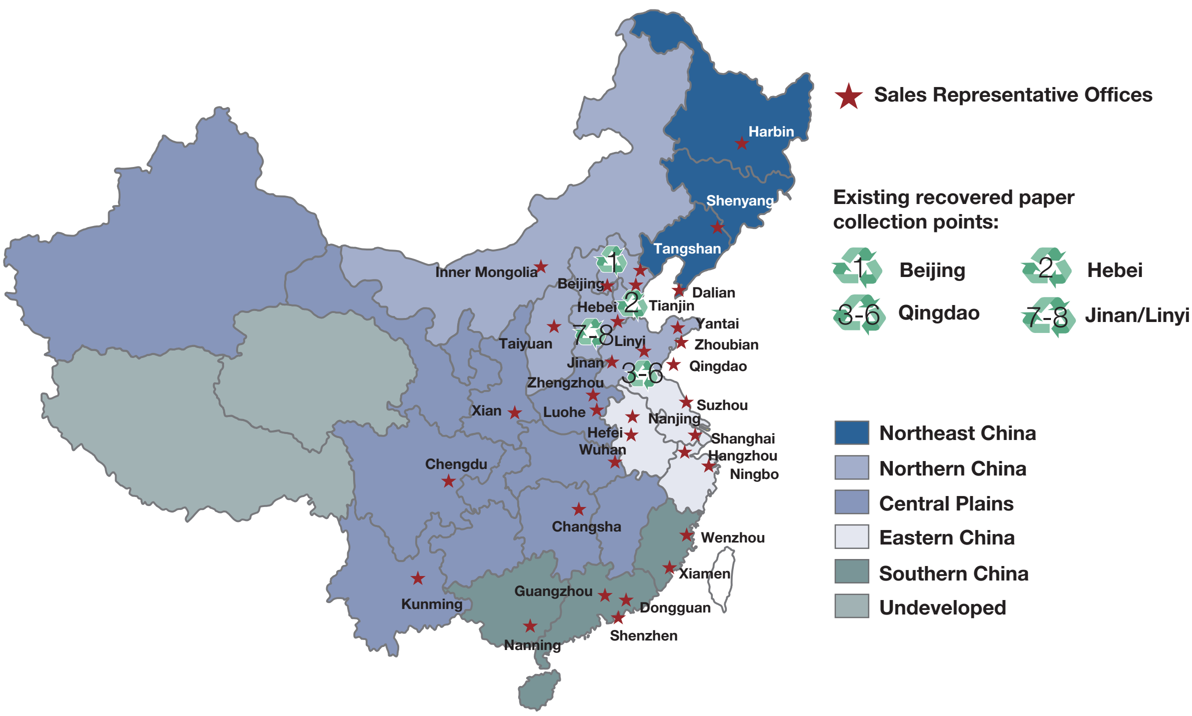
(2) PL 5 commenced commercial operation in March 2011.

Chairman's Statement

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.

The following map shows the geographical location of our Group's recovered paper collection points and sales representative offices as at the date of this report:



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 optimised 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 emphasises in shifting from investment towards consumption and accelerating the process of urbanisation, 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 to 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 in production.

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

Wang Dongxing
Chairman

Hong Kong
28 March 2011


BRIGHTNESS
明媚
Management Discussion and Analysis
管理層討論及分析

Management Discussion and Analysis

Total revenue and ASP

Our Group's total revenue for 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").

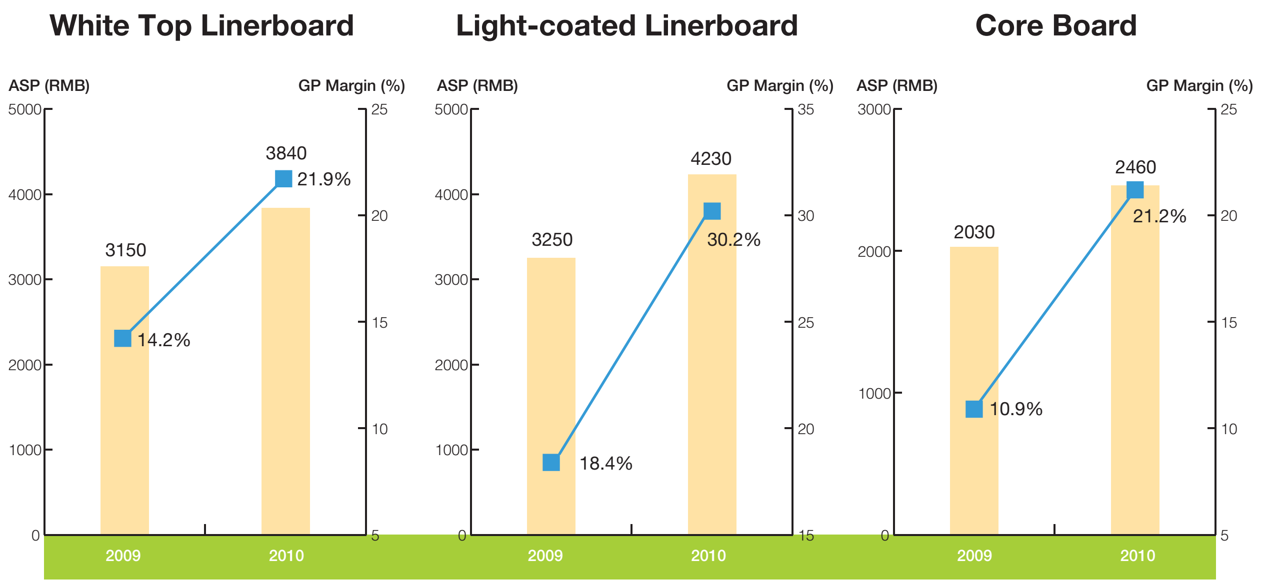
The core business of our Group remained manufacturing and sales of paper products. Sales of paper products, representing 93.4% of our Group's total revenue for FY2010, increased from RMB1,614.8 million for FY 2009 to RMB2,293.4 million for FY 2010. Such increase was driven by both the increase in the 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		
	RMB'000	**Gross profit margin (%)**	**%**	RMB'000	Gross profit 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:



Note: 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.

Management Discussion and Analysis

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 utilising 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.

ETHUSIASM
熱 情

Corporate Governance Report

企業管治報告

Corporate Governance Report

Corporate Governance Practices

Our Company is committed to achieve high standards of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for the growth of our Group and for safeguarding and maximizing the interests of the shareholders of our Company (the “Shareholders”). During the year ended 31 December 2010, our Company has complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), except for the deviation from Code Provision A2.1 under the CG Code. Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive officer and Mr. Wang Dongxing is the chairman of our Board and executive director of our Company (the “Director”) and also the general manager of Shandong Century Sunshine Paper Group Co., Ltd., the principal operating subsidiary of our Group. In addition to such roles, with Mr. Wang’s extensive experience in the paper industry, our Board considers that it is in the interest of our Group and our Shareholders as a whole for him to be given the overall management responsibility of our Group. Our Board considers that vesting the roles of chairman of our Board and functions of chief executive officer of our Company in the same person, namely Mr. Wang Dongxing, is appropriate to our Company at this stage and believes such arrangement will not result in any material adverse impact to the efficiency of operation and management of our Company.

Model Code for Securities Transactions by the Directors

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by our Directors. Specific enquiries have been made to all Directors by our Company to confirm that all Directors have complied with the Model Code during the year ended 31 December 2010.

The Board

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

— formulate long-term business strategies;
— approve annual budgets;
— review operating and financial performance;
— discuss and approve acquisition opportunities, investments and significant capital expenses;
— approve the appointment of Directors and the joint company secretaries; and
— monitor the performance of the Group's management.

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

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

In accordance with the articles of association of our Company, one third (or not less than one third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and, being eligible, offer themselves for re-election at such annual general meeting. Further, as Mr. Leung Ping Shing was appointed on 25 November 2010 to fill the casual vacancy of our Board due to the resignation of Ms. Wong Wing Yee, Jessie, in accordance with the articles of association of our Company, Mr. Leung Ping Shing shall retire from office at the forthcoming annual general meeting of our Company and, being eligible, offer himself for re-election at such annual general meeting. Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Leung Ping Shing will retire from office at the forthcoming annual general meeting of our Company and being eligible, will offer themselves for re-election.

Our Company has received from each of our independent non-executive Directors an annual confirmation of his or her independence for the year ended 31 December 2010 in accordance with Rule 3.13 of the Listing Rules. Our Company considers all of the independent non-executive Directors are independent.

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

Board Meetings

Before a board meeting is convened, relevant documents will be sent to our Directors for their review pursuant to the Listing Rules and the CG Code. During the year ended 31 December 2010, four board meetings were held and the attendance of each director is set out below:

	Number of board meeting attended during the year ended 31 December 2010	**Attendance rate**
Executive Directors		
Mr. Wang Dongxing	4/4	100%
Mr. Shi Weixin	4/4	100%
Mr. Zhang Zengguo	4/4	100%
Mr. Wang Yilong	4/4	100%
Non-executive Directors		
Mr. Xu Fang	4/4	100%
Mr. Wang Junfeng	4/4	100%
Independent non-executive Directors		
Mr. Wang Zefeng	4/4	100%
Mr. Xu Ye	4/4	100%
Ms. Wong Wing Yee, Jessie[(i)]	4/4	100%
Mr. Leung Ping Shing[(ii)]	—	—

Notes:

(i) Ms. Wong Wing Yee, Jessie resigned on 25 November 2010.

(ii) Mr. Leung Ping Shing was appointed as an independent non-executive Director on 25 November 2010. No board meeting was held during the period from his appointment on 25 November 2010 to 31 December 2010.

Audit Committee

Our Company has established an audit committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Company and to provide advice and comments to our Board. The members of the audit committee are all of our independent non-executive Directors, namely Ms. Wong Wing Yee, Jessie (up to her resignation on 25 November 2010) and Mr. Leung Ping Shing (since his appointment on 25 November 2010), Mr. Wang Zefeng and Mr. Xu Ye. Ms. Wong Wing Yee, Jessie (up to her resignation on 25 November 2010) and Mr. Leung Ping Shing (since his appointment on 25 November 2010) is the chairman/chairlady of the audit committee during the relevant period. Two audit committee meetings were held during the year ended 31 December 2010 and all members at the time, namely, Ms. Wong Wing Yee, Jessie (Chairlady), Mr. Wang Zefeng and Mr. Xu Ye, have attended such meetings.

Remuneration Committee

Our Company has established a remuneration committee in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng, and Ms. Wong Wing Yee, Jessie (up to her resignation on 25 November 2010) and Mr. Leung Ping Shing (since his appointment on 25 November 2010). Mr. Wang Zefeng is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and give recommendations to our Board in relation to the remuneration and other benefits paid by our Company to our Directors and the senior management of our Group. The remuneration of all our Directors and the senior management our Group is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. One remuneration committee meeting was held during the year ended 31 December 2010 and all members at the time, namely, Ms. Wang Zefeng (Chairman), Mr. Wang Dongxing and Ms. Wong Wing Yee, Jessie, have attended such meeting.

Auditors' Remuneration

For the year ended 31 December 2010, the fee paid or payable to the auditors of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.5 million and RMB Nil, respectively.

Internal Control

Our Board has overall responsibility for our Group's system of internal control and for reviewing its effectiveness. Our Board will conduct regular review regarding internal control systems of our Group. During the year ended 31 December 2010, our Board has reviewed the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. Besides, the audit committee of our Company and our Board also will perform regular review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group and such review conducted during the year ended 31 December 2010 did not reveal any major issues.

Directors' Responsibility on the Consolidated Financial Statements

Our Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2010, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditor of our Company on the consolidated financial statements of our Group are set out in the independent auditor's report on page 51.

Report of the Audit Committee

Members

The audit committee of our Company consists of three independent non-executive Directors, namely, Ms. Wong Wing Yee, Jessie (as Chairlady up to her resignation on 25 November 2010) Mr. Leung Ping Shing (as Chairman since his appointment on 25 November 2010), Mr. Wang Zefeng and Mr. Xu Ye. Biographical details of the current members are set out in the section headed "Directors, Senior Management and Staff".

Terms of Reference

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

Meetings

Two audit committee meetings were held during the year ended 31 December 2010 and all members at the relevant time, namely, Ms. Wong Wing Yee, Jessie (Chairlady), Mr. Wang Zefeng and Mr. Xu Ye, have attended such meetings.

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

- reviewed the consolidated financial statements for the year ended 31 December 2010;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2010;
- reviewed the external auditor's audit plan, 2010 letter of representation and audit engagement letter;
- considered and approved the 2010 external audit fees;
- reviewed our Company's internal control systems; and
- reviewed the "Continuing Connected Transactions" set out on pages 48 to 49 of this annual report.

Financial Reports

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

Review of Internal Control and Risk Management Systems

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

Re-Appointment of External Auditor

The audit committee recommended to our Board that, subject to Shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as our Company's external auditor for the year ending 31 December 2011.

For the year ended 31 December 2010, the external auditors of our Company received or will receive approximately RMB1.5 million in total for their audit services rendered. The external auditors have not provided any non-audit services to our Company during the year ended 31 December 2010.

HARMONY 和睦

Directors, Senior Management and Staff

董事，高級管理層及員工

Directors, Senior Management and Staff

Board of Directors

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

Name	Age	Position in our Group
Executive Directors		
Mr. Wang Dongxing	48	Chairman of our Board, general manager of our Group and member of the remuneration committee
Mr. Shi Weixin	54	Vice chairman of our Board
Mr. Zhang Zengguo	45	Deputy general manager of our Group
Mr. Wang Yilong	48	
Non-executive Directors		
Mr. Wang Junfeng	37	
Mr. Xu Fang	33	
Independent non-executive Directors		
Ms. Wong Wing Yee, Jessie (resigned on 25 November 2010)	45	Chairlady of the audit committee and member of the remuneration committee
Mr. Leung Ping Shing (appointed on 25 November 2010)	52	Chairman of the audit committee and member of the remuneration committee
Mr. Wang Zefeng	50	Chairman of the remuneration committee and a member of the audit committee
Mr. Xu Ye	38	Member of the audit committee

Executive Directors

Mr. Wang Dongxing, aged 48, is an executive Director, the chairman of our Board and the general manager of our Group. With over 20 years of experience in the paper manufacturing industry, Mr. Wang is responsible for the overall management and strategy of our Group. Mr. Wang has been with our Group since the establishment of Changle Sunshine in 2000. He graduated from 山東輕工業學院 (Shandong Institute of Light Industry) with a Bachelor of Engineering degree in 1983, with a major in pulp and paper making. He served as a director and deputy general manager of Shandong Chenming Paper Holdings Limited ("Shandong Chenming"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 1812), which was mainly engaged in the business of production of machine-made paper, paper plate, paper materials and paper-making related machineries from 1985 to 1999. He was mainly responsible for the daily operation and management in Shandong Chenming. He served as a factory manager of Shandong Chenming Paper Industry Group Qihe Cardboard Co., Ltd ("Qihe Cardboard") from 1995 to 1996. During his tenure in office in Qihe Cardboard, Mr. Wang obtained the Qihe County's Economic Special Achievement Golden award. He also served as a factory manager of Shandong Chenming No. 2 Factory from 1997 to 1998, and was the general manager of Wuhan Shuailun Paper Industry Co., Ltd. from 1999 to 2000.

Mr. Shi Weixin, aged 54, is an executive Director and the vice chairman of our Board. With over 20 years of experience in electrical automation control, Mr. Shi is responsible for the management of the automation system. Mr. Shi has been with our Group since the establishment of Changle Sunshine in 2000. He graduated from China Textile University in 1986, with a major in industrial electrical automation. Mr. Shi used to be a director of Shanghai Paper Manufacturing Machinery General Factory from 1981 to 1992 and was responsible for the design of the automation control system for paper-making equipments. During 1984 to 1992, he has been named as an "Excellent Technician" twice. In 1993, Mr. Shi founded Shanghai Paper Mechanical Electric Control Technology Institute (the "Shanghai Institute"), and has been its chairman and general manager since 1993. Mr. Shi was primarily responsible for management and operation in Shanghai Institute. He was also a member of the Shanghai Hongkou District Committee of Political Consultative Conference, a member of the executive committee of Shanghai Hongkou Federation of Industry and Commerce and a director of Hongkou Association of Entrepreneurs Association. Mr. Shi won the "Shanghai City Technological Achievement" award in 2000.

Directors, Senior Management and Staff

Mr. Zhang Zengguo, aged 45, is an executive Director and the deputy general manager of our Group and is responsible for production management. Mr. Zhang joined our Group in 2001. He is also the director of the technical department, assistant general manager and deputy general manager of Changle Sunshine since 2001. He graduated from the Shandong Institute of Light Industry in 1988, with a major in pulp and paper manufacturing. Mr. Zhang was the department director and engineer of Jinguang Paper Mill from 1993 to 2000. During his tenure in office in Jinguang Paper Mill, Mr. Zhang was primarily responsible for the design, construction and test run of projects.

Mr. Wang Yilong, aged 48, is an executive Director of our Group and is responsible for facilities management. Mr. Wang has been with our Group since the establishment of Changle Sunshine in 2000. He graduated from Tongji University in 1985, with a major in electronic automation. He is also the deputy general manager of the Shanghai Institute since 1993, with the responsibility of marketing, sales and production. He was the technical director of the Shanghai Rectifier General Factory from 1985 to 1992, and was responsible for the design of products and sales.

Non-executive Directors

Mr. Wang Junfeng, aged 37, is a non-executive Director. He obtained a Bachelor's degree majoring in Chemistry in Lanzhou University (蘭洲大學) in 1995 and a Master's degree majoring in finance from McMaster University of Canada in 2004. He is currently the managing director of Legend Capital Management Limited (聯想投資有限公司) and is responsible for investment management. Prior to joining Legend Capital Management Limited in 2004, Mr. Wang worked in Lenovo Group Limited (聯想集團有限公司) between 1997 and 2001 and in Beijing Building Material Group (北京金隅集團) between 1995 and 1997.

Mr. Xu Fang, aged 33, is a non-executive Director. Mr. Xu joined our Group in 2006. Mr. Xu graduated from Jiangxi University of Finance and Economics, with a major in international finance in 1998. He is currently an executive director of China Everbright Investments Management Limited. Mr. Xu worked in Shenzhen UnionNet Company between 1998 and 2001 and in Taiwan Securities Co (Hong Kong), Ltd. between 2001 and 2003.

Independent Non-executive Directors

Mr. Leung Ping Shing, aged 52, is an independent non-executive Director. Mr. Leung joined our Group in 2010. Mr. Leung is also the chairman of the audit committee of our Company and a member of the remuneration committee of our Company. Mr. Leung has over 16 years of experience in accounting and financial management in China and abroad. Mr. Leung obtained a Bachelor's degree in Business Administration from Simon Fraser University, Vancouver, Canada, in 1982. He had worked in the hotel and investment banking industries. In the past 10 years, he had assumed senior executive management roles overseeing finance and accounting matters for well known companies such as the Shangri-La Hotels group and the Jin Jiang Hotels group. Mr. Leung was a non-executive director of Ming Fai International Holdings Limited (stock code: 3828) between May 2010 and December 2010, and he has been its executive director since December 2010.

Mr. Wang Zefeng, aged 50, is an independent non-executive Director. Mr. Wang joined our Group in 2007. Mr. Wang is also the chairman of the remuneration committee of our Company and a member of the audit committee of our Company. Mr. Wang graduated from Shandong Institute of Light Industry in 1982 with a Bachelor's degree in industrial art of pulp and paper manufacturing. He is currently the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group. He is also the vice chairman of Shandong Paper Manufacturing Industry Association, Shandong Light Industry Machinery Association and Shandong Packaging Printing Association. He worked in Shandong Light Industry Design Institute from 1988 to 2001.

Mr. Xu Ye, aged 38, is an independent non-executive Director. Mr. Xu joined our Group in 2007. Mr. Xu is also a member of the audit committee of our Company. Mr. Xu founded Star Link Investments Holdings Ltd. ("Star Link Investments") in 2005 and is currently its managing partner. Star Link Investments specializes in investments, merger and acquisition advisory, and business consulting services. Mr. Xu had significant professional experiences with international investment banks including Lehman Brothers International from 2000 to 2001, Banque Paribas in 1998, and L.E.K. Consulting, a prestigious multinational consultancy focusing on corporate strategy, from 2001 to 2002. He also worked as the chief financial officer of Novanat Bio-Resources Inc. from 2003 to 2004. Mr. Xu obtained his MBA from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor of Arts and Bachelor of Science degrees from the Shanghai International Studies University and the Shanghai University of Finance and Economics in 1994, respectively.

Directors, Senior Management and Staff

Senior Management

Mr. Ci Xiaolei, aged 35, is the deputy general manager of our Group and is responsible for the management of our Company's new projects. Mr. Ci joined our Group in 2003. Mr. Ci graduated from Anhui University of Technology and Science with a Bachelor of Engineering in 1998. Mr. Ci has been the project manager, deputy-general engineer and general engineer of Phase I and Phase II of the production facilities of Changle Sunshine and is currently the project manager of Phase III of the production facilities of Changle Sunshine. Prior to joining the Group, Mr. Ci worked at Shandong Chenming and was responsible for equipment management and maintenance.

Mr. Jia Haitao, aged 38, is the secretary of our Board and the head of the securities department of our Group. Mr. Jia joined the Group in 2001. Mr. Jia has over 18 years of working experience in financial management and accounting in China. Mr. Jia graduated from Shandong Province Weifang School of Commerce majoring in accounting and finance in 1992.

Mr. Liu Wenzheng, aged 39, is the deputy general manager of our Group and is responsible for the management of the accounting and finance of our Company's subsidiaries in China. Mr Liu joined the Group in February 2010. Mr Liu graduated from Shandong Administration Institute with a Bachelor's degree in accountancy in 1993. Prior to joining our Group, he was the chief financial controller of Shandong Haoxin Group. He has also worked as a chief financial officer, deputy chief officer and chief officer of the audit department of Qihe Cardboard and was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

Mr. Ruan Guoting, aged 54, is the deputy general manager of our Group and is responsible for infrastructure projects. Mr. Ruan joined our Group in 2002. Mr. Ruan graduated from the Shangdong Construction University with a postsecondary degree in industrial design in 1978, and then he graduated with a post-secondary degree in Architecture Management in 1995. Prior to joining our Group, Mr. Ruan had worked as an engineer in Shouguang Second Construction Engineering Company and Shandong Chenming.

Mr. Sang Ziqian, aged 56, is the deputy general manager of our Group and is responsible for production management. He is also the general manager of Changle Shengshi Thermoelectricity Co., Ltd. ("Shengshi Thermoelectricity"). Mr. Sang joined our Group in 2001. Prior to joining our Group, Mr. Sang worked in Shandong Chenming for 19 years as an assistant economic officer. During his tenure in office in Shandong Chenming, Mr. Sang was primarily responsible for sales, after-sale service and client relationship management.

Mr. Wang Changhai, aged 40, is the deputy general manager of our Group and is responsible for domestic sales. Mr. Wang joined our Group in 2001. Mr. Wang had been a manager and an assistant manager of our Group, and was promoted to the deputy general manager of our Group in 2003.

Ms. Zhang Xiaohui, aged 49, is the deputy general manager of the Group and is responsible for international sales. Ms. Zhang joined our Group in 2003. Ms. Zhang graduated from the Shandong Institute of Light Industry with a Bachelor of Engineering. Prior to joining our Group, between 1985 and 1999, Ms. Zhang worked in the China National Pulp and Paper Research Institute. Between 2000 and 2001, Ms. Zhang worked in the Beijing Branch of Thermo Black Clawson Inc as senior regional manager and her primary responsibilities included sales and marketing.

Mr. Ng Cheuk Him, aged 36, is the chief financial controller of our Group and the company secretary of our Company. Prior to joining our Group, Mr. Ng held a senior position in an international corporate and investment bank in Hong Kong. Mr. Ng has an extensive working experience in corporate financial management, accounting and auditing, including managerial experience in a Hong Kong listed company and an international accounting firm. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Company Secretary

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

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Report of the Directors
董事會報告

Report of the Directors

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for the year ended 31 December 2010.

Principal activities

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

Results and appropriations

The consolidated results of our Group for the year ended 31 December 2010 are set out in the consolidated financial statements on page 53.

Dividend

We, as the Directors, propose to declare a final dividend of HK$5.0 cents per ordinary share for the year ended 31 December 2010 (HK$2.4 cents for the year ended 31 December 2009), which will be subject to approval by our Shareholders at the forthcoming annual general meeting of our Company to be held on 26 May 2011. If approved, the proposed final dividend will be paid to our Shareholders on or before 15 June 2011.

Reserves

Details of the change in reserves of our Group for the year ended 31 December 2010 are set out in the consolidated financial statements on page 56.

Donations

During to financial year ended 31 December 2010, our Group donated a total of RMB0.3 million (2009: RMB0.1 million) for charitable purpose.

Property, plant and equipment

Details of the movements in the property, plant and equipment, and land use rights of our Group during the year ended 31 December 2010 are set out in notes 14 and 15 to the consolidated financial statements.

Share capital

Details of the movements in the share capital of our Company during the year ended 31 December 2010 are set out in note 31 to the consolidated financial statements.

Pre-emptive rights

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

Financial summary

A summary of the consolidated results and of the assets and liabilities of our Group for the last five financial years is set out on page 130.

Subsidiaries

Particulars of the subsidiaries of our Company are set out in note 42 to the consolidated financial statements.

Borrowings

Details of the borrowings of our Group are set out in notes 29 and 30 to the consolidated financial statements.

Purchase, sale or redemption of securities

During the financial year ended 31 December 2010, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of our Company.

Report of the Directors

Directors

The Directors who held office during the year ended 31 December 2010 and up to the date of this report were:

Executive Directors

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

Non-executive Directors

Mr. Xu Fang
Mr. Wang Junfeng

Independent non-executive Directors

Mr. Leung Ping Shing *(appointed on 25 November 2010)*
Ms. Wong Wing Yee, Jessie *(resigned on 25 November 2010)*
Mr. Wang Zefeng
Mr. Xu Ye

In accordance with the articles of association of our Company, Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Leung Ping Shing will retire at the forthcoming annual general meeting of the Company. Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Leung Ping Shing, being eligible, will offer themselves for re-election.

Our Company has received from each of its independent non-executive Directors an annual confirmation of his or her independence during the year ended 31 December 2010 pursuant to Rule 3.13 of the Listing Rules and our Board considers that all of the independent non-executive Directors are independent.

Directors' service contracts

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

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

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

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

Details of directors' emolument for each of our Directors for the year ended 31 December 2010 are set out in note 10 to the consolidated financial statements.

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

Directors' interests in contracts

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

Directors' interests in securities

As at 31 December 2010, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

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

Notes:

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

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

So far as we, the Directors, are aware, as at 31 December 2010, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of our Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name	Long position/short position	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	325,387,052	40.54%
China Sunshine(1)	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholder Group(2)	Long	Interest of a party to an agreement to acquire interest in our Company	325,387,052	40.54%
Good Rise Holdings Limited	Long	Beneficial interest	73,547,674	9.16%
LC Fund III, LP(3)	Long	Interest of a controlled corporation	73,547,674	9.16%
LC Fund III GP Limited(4)	Long	Interest of a controlled corporation	73,547,674	9.16%
Right Lane Limited(5)	Long	Interest of a controlled corporation	73,547,674	9.16%
Legend Holdings Limited(6)	Long	Interest of a controlled corporation	73,547,674	9.16%
Wang Nengguang(7)	Long	Interest of a controlled corporation	73,547,674	9.16%
The Employees' Shareholding Society of Legend Holdings Limited(8)	Long	Interest of a controlled corporation	73,547,674	9.16%
The Chinese Academy of Sciences Holdings Co., Ltd.(8, 9)	Long	Interest of a controlled corporation	73,547,674	9.16%
Seabright SOF (I) Paper Limited	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited(10)	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited(11)	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited(12)	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC(12)	Long	Interest of a controlled corporation	71,341,244	8.89%

Notes:

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

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

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

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

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

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

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

8. Each of the Employees' Shareholding Society of Legend Holdings Limited and the Chinese Academy of Sciences Holdings Co., Ltd. controls more than one third of the voting rights of Right Lane Limited. Accordingly, each of the Employees' Shareholding Society of Legend Holdings Limited and the Chinese Academy of Sciences Holding Co., Ltd. is deemed to be interested in the 73,547,674 Shares held by Good Rise Holdings Limited.

9. The Chinese Academy of Science Holding Co., Ltd. is a state owned enterprise.

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

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

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

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of our Company as at 31 December 2010.

Share Option Scheme and Pre-IPO Share Option Scheme

(a) Share Option Scheme

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

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

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

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

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

An offer of the grant of an option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of offer ("Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme ("Acceptance Date"). An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the Acceptance Date. Such remittance shall in no circumstances be refundable.

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

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

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

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

		Number of share options				
Date of Grant (note 1 and 2)	**Eligible Persons**	**As at 1 January 2010**	**Granted during the year**	**Exercised during the year**	**As at 31 December 2010**	**Exercise period**
8 April 2010	An employee	—	800,000	(500,000)	300,000	(i)
8 April 2010	An employee	—	800,000	—	800,000	(ii)
8 April 2010	An employee	—	800,000	—	800,000	(iii)
8 April 2010	An employee	—	800,000	—	800,000	(iv)

(i) From 1 July 2010 to 31 December 2011

(ii) From 1 July 2011 to 31 December 2012

(iii) From 1 July 2012 to 31 December 2013

(iv) From 1 July 2013 to 31 December 2014

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

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

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

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

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

(b) Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme was approved by written resolutions of the Shareholders dated 19 November 2007 and adopted by our Company (the "Pre-IPO Share Option Scheme"). Pursuant to the terms of the Pre-IPO Share Options Scheme, options to subscribe for 14,400,000 Shares were granted on 19 November 2007 at a subscription price per Share of HK$5.4, representing a 10% discount to the final offer price per Share of the initial public offering of the Shares on the Stock Exchange on 12 December 2007. Except for the options granted on 19 November 2007, no further options have been granted pursuant to the Pre-IPO Share Option Scheme.

As at 31 December 2010, there was no outstanding share options granted under the Pre-IPO Share Option.

Major customers and suppliers

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

Employees and remuneration policies

As at 31 December 2010, our Group had around 3,100 full-time employees. The staff costs for the year ended 31 December 2010 was around RMB102.3 million, representing an increase of 39.8 million over last year.

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

Corporate governance

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

Connected transactions

Certain related party transactions as disclosed in note 40 to the consolidated financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Our Group has entered into two agreements on 27 October 2009 with Weifang Shengtai Medicine Co., Ltd ("Shengtai Medicine"), who is interested in 20% of the registered capital of Shengshi Thermoelectricity. The remaining 80% of the registered capital of Shengshi Thermoelectricity is held by Changle Sunshine, an indirect 99.9% subsidiary of our Company. Transactions under such two agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules and the details of such continuing connected transactions are set out below:

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

    For the year ended 31 December 2010, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB63.2 million, which was below the annual cap of RMB122.2 million for the year ended 31 December 2010.

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

    For the year ended 31 December 2010, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB30.6 million, which was below the annual cap of RMB60.6 million for the year ended 31 December 2010.

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

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

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

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

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

Compliance with Non-Competition Deed

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

Report of the Directors

Sufficiency of public float

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

Auditors

The consolidated financial statements for the year ended 31 December 2010 have been audited by Deloitte Touche Tohmatsu who will retire at the forthcoming annual general meeting of our Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Dongxing
Chairman

Hong Kong
28 March 2011

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 129, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue	5	**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	7	**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	8	**(101,015)**	(58,557)
Profit before tax	9	**202,768**	58,289
Income tax expense	11	**(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
Non-controlling interests		**4,708**	5,316
		174,322	47,463
		RMB	RMB restated
Earnings per share	13		
— Basic		**0.21**	0.05
— Diluted		**0.21**	0.05

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**3,318,963**	1,897,055
Prepaid lease payments	15	**171,302**	90,650
Goodwill	16	**18,692**	18,692
Deferred tax assets	17	**7,598**	9,910
		3,516,555	2,016,307
Current assets			
Prepaid lease payments	15	**3,686**	1,969
Inventories	18	**545,481**	400,075
Trade receivables	19	**190,467**	137,919
Bills receivable	20	**1,236,783**	533,115
Prepayments and other receivables	21	**283,836**	56,745
Restricted bank deposits	22	**412,687**	363,961
Bank balances and cash	22	**225,677**	357,505
		2,898,617	1,851,289
Current liabilities			
Trade payables	23	**1,110,936**	356,650
Bills payable		**—**	10,000
Other payables	24	**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	25	**42,214**	—
Deferred income — current portion	26	**2,073**	1,925
Derivative financial instruments	27	**2,242**	4,998
Discounted bill financing	28	**688,735**	126,606
Bank borrowings — due within one year	29	**1,419,074**	1,152,506
Other borrowings	30	**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

	NOTES	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	31	**72,351**	37,872
Reserves	32	**1,318,407**	1,190,289
Equity attributable to owners of the Company		**1,390,758**	1,228,161
Non-controlling interests		**53,987**	41,876
Total equity		**1,444,745**	1,270,037
Non-current liabilities			
Obligations under finance leases — non-current portion	25	**177,389**	—
Bank borrowings — due after one year	29	**1,055,681**	610,401
Deferred income — non-current portion	26	**27,495**	27,285
Deferred tax liabilities	17	**9,180**	8,223
		1,269,745	645,909
Total equity and non-current liabilities		**2,714,490**	1,915,946

The consolidated financial statements on pages 53 to 129 were approved by the board of directors on 28 March 2011 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Shi Weixin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000 (note 32)	Capital reserve RMB'000 (note 32)	Share option reserve RMB'000	Assets revaluation reserve RMB'000 (note 32)	Statutory surplus reserve RMB'000 (note 32)	Discretionary surplus reserve RMB'000 (note 32)	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	37,872	610	792,344	(2,776)	83,754	12,119	4,196	30,506	5,429	240,210	1,204,264	31,205	1,235,469
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	–	42,147	42,147	5,316	47,463
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,245)	(1,245)
Recognition of equity-settled share-based payments	–	–	–	–	–	(5,523)	–	–	–	–	(5,523)	–	(5,523)
Transfer upon expiry of share options	–	–	–	–	–	(6,596)	–	–	–	6,596	–	–	–
Transfer	–	–	–	–	–	–	–	3,429	–	(3,429)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(10)	(10)
Dividend paid to owners of the Company	–	–	(12,727)	–	–	–	–	–	–	–	(12,727)	–	(12,727)
Contributions from non-controlling interests (note i)	–	–	–	–	–	–	–	–	–	–	–	6,598	6,598
Deemed disposal of interest in a subsidiary (note i)	–	–	–	–	–	–	–	–	–	–	–	12	12
At 31 December 2009	**37,872**	**610**	**779,617**	**(2,776)**	**83,754**	**–**	**4,196**	**33,935**	**5,429**	**285,524**	**1,228,161**	**41,876**	**1,270,037**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**169,614**	**169,614**	**4,708**	**174,322**
Capital contribution by non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,000**	**10,000**
Acquisition of additional interest in a subsidiary (note ii)	**–**	**–**	**–**	**–**	**23**	**–**	**–**	**–**	**–**	**–**	**23**	**(2,577)**	**(2,554)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**713**	**–**	**–**	**–**	**–**	**713**	**–**	**713**
Bonus shares issued	**34,436**	**–**	**(34,436)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercise of share options	**43**	**–**	**601**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**644**	**–**	**644**
Transfer upon exercise of share options	**–**	**–**	**158**	**–**	**–**	**(158)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,078**	**–**	**(19,078)**	**–**	**–**	**–**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Dividend paid to owners of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,397)**	**(8,397)**	**–**	**(8,397)**
At 31 December 2010	**72,351**	**610**	**745,940**	**(2,776)**	**83,777**	**555**	**4,196**	**53,013**	**5,429**	**427,663**	**1,390,758**	**53,987**	**1,444,745**

Notes:

(i) Contributions from non-controlling interests for the year ended 31 December 2009 mainly related to capital contributions in 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Wastes Paper Recovery Co., Ltd) ("Changdong Paper Recovery"), a subsidiary of the Company. On 26 February 2009, Changdong Paper Recovery entered into an agreement with certain independent third parties, under which these new investors agreed to make a cash contribution of RMB6,500,000 in the capital of Changdong Paper Recovery. Upon the completion of the transaction, the Group's interest in Changdong Paper Recovery reduced from 100% to 86% and a loss on deemed disposal of approximately RMB12,000 was recognised.

(ii) During 2010, the Company acquired additional interests of 5% in Changdong Paper Recovery from its non-controlling shareholders with an aggregate consideration of RMB2,500,000. Upon the completion of the transactions, the Company's interests in Changdong Paper Recovery increased from 86% to 91% accordingly.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	RMB'000	RMB'000
Operating activities		
Profit before tax	**202,768**	58,289
Adjustments for:		
Interest income	**(23,874)**	(12,027)
Finance costs	**101,015**	58,557
Depreciation of property, plant and equipment	**90,464**	75,601
Release of prepaid lease payments	**2,439**	1,911
Loss on disposal of property, plant and equipment	**3,705**	567
Discount on acquisition of additional interest in a subsidiary	**—**	(699)
Allowance for inventories	**123**	682
Decrease in bad debt allowance	**(522)**	—
Release of deferred income	**(2,042)**	(1,925)
Expense recognised (reversed) in profit or loss in respect of equity-settled share-based payment	**713**	(5,523)
(Gain) loss on fair value changes of derivative financial instruments	**(710)**	7,134
Loss on interest swap contract	**9,824**	—
Deemed disposal of interest in a subsidiary	**—**	12
Operating cash flows before movements in working capital	**383,903**	182,579
Increase in inventories	**(145,529)**	(174,601)
(Increase) decrease in trade receivables	**(52,026)**	33,523
Increase in bills receivable	**(703,668)**	(120,863)
Increase in prepayments and other receivables	**(227,091)**	(23,975)
Increase (decrease) in trade payables	**755,925**	(15,762)
(Decrease) increase in bills payable	**(10,000)**	10,000
(Decrease) increase in other payables	**(2,293)**	13,787
Increase in deferred income	**1,400**	1,006
Cash generated from operations	**621**	(94,306)
Income tax paid	**(10,530)**	(7,670)
Net cash used in operating activities	**(9,909)**	(101,976)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Investing activities		
Purchase of property, plant and equipment	(1,122,056)	(422,939)
Prepaid lease payments of land use rights	(84,808)	(2,337)
Proceeds on disposal of property, plant and equipment	5,527	853
Acquisition of additional interests in a subsidiary	—	(546)
Deemed disposal of partial interest in a subsidiary	—	6,500
Government grants received	1,000	9,260
Interest received	21,341	6,899
Increase in restricted bank deposits	(48,726)	(130,771)
Repayment of loans receivable	—	40,811
Net cash used in investing activities	(1,227,722)	(492,270)
Financing activities		
Issue of share upon exercise of share options	644	—
Acquisition of additional interests in a subsidiary	(2,554)	—
Capital contribution by non-controlling shareholders of subsidiaries	10,000	98
New borrowings raised	2,131,683	1,691,371
Borrowings repaid	(1,422,987)	(874,798)
Increase in discounted bill financing	562,129	82,802
Dividends paid to minority shareholders of a subsidiary	(20)	(10)
Interest paid	(143,712)	(57,674)
Dividend paid	(8,397)	(12,727)
Repayment of installments under finance lease	(20,983)	-
Net cash generated from financing activities	1,105,803	829,062
Net (decrease) increase in cash and cash equivalents	(131,828)	234,816
Cash and cash equivalents at beginning of the year	357,505	122,689
Cash and cash equivalents at end of the year, representing bank balances and cash	225,677	357,505

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Except as described as below, the adoption of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Company.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Company's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

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

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements (continued)

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Company's additional acquisition of Changdong Paper Recovery in the current year. The change in policy has resulted in the difference of RMB83,000 between the consideration paid of RMB2,500,000 and the non-controlling interests disposed of RMB2,417,000 being recognised directly in equity, instead of in goodwill. Therefore, the change in accounting policy has resulted in a decrease in goodwill for the year of RMB83,000. In addition, the cash consideration paid in the current year of RMB2,500,000 has been included in cash flows from financing activities.

For financial statements with year ending 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]

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

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements (continued)

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

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements (continued)

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. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in existing subsidiaries on or after 1 January 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Company's ownership interests in existing subsidiaries (continued)

Changes in the Company's ownership interests in existing subsidiaries on or after 1 January 2010 (continued)

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Company's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Company losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Revenue recognition

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

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

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

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment including those under finance lease, other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

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

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

Leasing

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

The Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Foreign currencies

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Retirement benefit costs

Payments to the Group's defined contribution retirement benefit plans, including state-managed retirement schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Impairment of tangible assets other than goodwill

At the end of reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are all classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

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

Impairment of loans and receivables

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

Objective evidence of impairment could include:

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

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables *(continued)*

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets in the next financial year are discussed below.

Impairment of inventories

The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and realisability of the inventories. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and allowance for inventories in the year in which such estimate has been changed. As at 31 December 2010, the carrying amount of inventories is approximately RMB545,481,000 (2009: RMB400,075,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of receivables

The Group makes allowances for and write-off of bad and doubtful debts based on an assessment of the recoverability of the receivables. Receivables may be impaired where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the receivables and doubtful debts expenses in the year in which such estimate has been changed. As at 31 December 2010, the aggregate carrying amount of trade, bills and other receivables is approximately RMB1,612,732,000 (2009: RMB702,436,000). Details of movements of allowance for doubtful receivables are disclosed in Note 19.

5. REVENUE

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

6. SEGMENT INFORMATION

(a) Operating segments

IFRS 8 requires operation segment to be identified on the basis of 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.

6. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results

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

For the year ended 31 December 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

6. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit earned by each paper product and raw material segment and the profit before tax earned by electricity and steam segment. The Group does not allocate operating expenses and other income to each operating segment under the paper products category and does not allocate the change in fair value of derivative financial instruments to individual operating segment when making decisions about resources to be allocated to the segment and assessing its performance.

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 financial information are provided to the chief operating decision maker.

6. SEGMENT INFORMATION (continued)

(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.

7. OTHER INCOME, GAINS AND LOSSES

	2010 **RMB'000**	2009 RMB'000
Exchange gain	**11,547**	212
Discount on acquisition of additional interests in a subsidiary	**–**	699
Government grants (Note i)	**51,449**	50,814
Interest income on bank deposits	**23,874**	11,216
Interest income from loans receivable	**–**	811
Sales of materials	**2,570**	704
Transportation service income	**1,006**	652
Insurance compensation	**2,243**	1,676
(Loss) gain on disposal of property, plant and equipment	**(3,705)**	567
Rental income	**1,534**	827
Others (Note ii)	**5,352**	(841)
	95,870	67,337

7. OTHER INCOME, GAINS AND LOSSES (continued)

Notes: (i) Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the value-added tax policies on renewable resources (Cai Shui [2008] No. 157) which took effect from 1 January 2009, Changdong Paper Recovery, a subsidiary of the Company that sells recycling resources, is qualified as an ordinary value-added tax payer and is entitled to have tax refund subsequent to the payment of the value-added taxes made to the tax bureau for each of the year ended 31 December 2009 and 2010. In accordance with the relevant rule, 70% and 50% respectively, of the value-added tax payment on recycling resources sales made by Changdong Paper Recovery in 2009 and 2010 will be refunded. Changdong Paper Recovery is entitled to tax refund of approximately RMB40,535,000 (2009: RMB46,688,000) during the year ended 31 December 2010.

(ii) An amount of RMB3,650,000 included in the other income for the year represents the certain amount recovered from an ex-employee for his misconduct during his tenure of office. The loss suffered by the Group was fully recovered and received by the Group during the year.

8. FINANCE COSTS

	2010	2009
	RMB'000	RMB'000
Interest expenses on:		
Discounted billing financing	**24,305**	5,675
Bank and other borrowings wholly repayable within five years	**122,353**	66,389
Bank borrowings not wholly repayable within five years	**703**	487
Finance leases	**5,586**	—
	152,947	72,551
Less: Interest capitalised in construction in progress	**(51,932)**	(13,994)
	101,015	58,557

Borrowing costs capitalised during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.96% (2009: 5.84%) per annum to expenditure on construction in progress.

9. PROFIT BEFORE TAX

	2010	2009
	RMB'000	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
Reversal 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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Directors (continued)

		Other emoluments				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Equity-settled share-based payment RMB'000 (Note ii)	Total emoluments RMB'000
2009						
Executive directors:						
Wang Dongxing	200	78	—	—	(767)	(489)
Shi Weixin	50	—	—	—	(767)	(717)
Zhang Zengguo	100	45	5	—	—	150
Wang Yilong	30	—	—	—	—	30
Non-executive directors:						
Xu Fang	50	—	—	—	—	50
Wang Junfeng	50	—	—	—	—	50
Independent non-executive directors:						
Wong Wing Yee	88	—	—	—	—	88
Wang Zefeng	50	—	—	—	—	50
Xu Ye	50	—	—	—	—	50
	668	123	5	—	(1,534)	(738)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, included 2 directors (2009: 1 director), details of their emoluments are set out above. The emoluments of the remaining 3 (2009: 4) individuals during the year are as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other allowances	**1,215**	1,150
Retirement benefits schemes contributions	**15**	16
Equity-settled share-based payment (Note (ii))	**713**	(1,227)
	1,943	(61)

The above employees' emoluments were within the following bands:

	Number of individuals	
	2010	2009
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	—

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

Notes:

(i) The performance related incentive payments is determined by the Group's operating results, individual performance and prevailing market conditions.

(ii) During the year ended 31 December 2009, due to the failure to satisfy the specific vesting conditions in the share option scheme, share option granted to directors and employees were forfeited and related expenses previously recognised in profit or loss was reversed accordingly. Details are set out in Note 33(a).

11. INCOME TAX EXPENSE

	2010	2009
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	**25,177**	11,570
Deferred tax charge (credit) (Note 17)	**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. 山東世紀陽光紙業集團有限公司 (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.

11. INCOME TAX EXPENSE (continued)

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**202,768**	58,289
Tax at the applicable income tax rate of 25% (2009: 25%)	**50,692**	14,572
Effect of tax incentives (Note (a))	**(3,153)**	(6,142)
Tax effect of income not taxable	**(171)**	(147)
Tax effect of expenses not deductible	**2,145**	8,169
Effect of tax concession granted to certain subsidiaries	**(23,406)**	(6,131)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries (Note (b))	**1,908**	385
Unrealised profit on temporary difference	**633**	120
Unrecognised tax loss	**(202)**	—
Tax charge for the year	**28,446**	10,826

Notes:

(a) In 2008, the Company has obtained tax credit as approximately amount as RMB22,446,000 arising from approved purchase of machineries manufactured in the PRC which can be used to reduce their respective PRC enterprise income tax liability to the extent the incremental of PRC enterprise income tax charge in each subsequent assessable year, in which RMB13,151,000, RMB6,142,000 and RMB3,153,000 were utilised for the year ended 31 December 2008, 2009 and 2010 respectively. Although this policy have been terminated after the implementation of the New PRC Tax Laws on 1 January 2008, the approved tax credits remained effective for income tax deduction purpose. As of 31 December 2010, the above tax credit has been fully utilized for the income tax deduction.

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

Details of deferred tax for the year are set out in Note 17.

12. 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.

13. 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

13. EARNINGS PER SHARE (continued)

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**	802,088,000

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.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery, and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST				
At 1 January 2009	422,065	862,864	332,294	1,617,223
Additions	5,511	20,156	448,948	474,615
Transfers	23,362	274,501	(297,863)	—
Disposals	—	(6,341)	—	(6,341)
At 31 December 2009	450,938	1,151,180	483,379	2,085,497
Additions	11,122	54,199	1,457,922	1,523,243
Transfers	15,177	133,647	(148,824)	—
Disposals	—	(17,811)	—	(17,811)
At 31 December 2010	**477,237**	**1,321,215**	**1,792,477**	**3,590,929**
DEPRECIATION				
At 1 January 2009	19,416	95,541	—	114,957
Provided for the year	14,655	60,946	—	75,601
Eliminated on disposals	—	(2,116)	—	(2,116)
At 31 December 2009	34,071	154,371	—	188,442
Provided for the year	14,322	76,142	—	90,464
Eliminated on disposals	—	(6,940)	—	(6,940)
At 31 December 2010	**48,393**	**223,573**	**—**	**271,966**
CARRYING AMOUNT				
At 31 December 2010	**428,844**	**1,097,642**	**1,792,477**	**3,318,963**
At 31 December 2009	416,867	996,809	483,379	1,897,055

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of the property, plant and equipment held under finance lease as at 31 December 2010 is RMB235,000,000 (2009: Nil).

At the end of the reporting period, warehouses with the carrying amount of RMB9,928,000 (2009: RMB4,730,000) are leased out for rental.

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

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

Details of property, plant and equipment pledged are set out in Note 36.

15. PREPAID LEASE PAYMENTS

	2010 **RMB'000**	2009 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**171,302**	90,650
Current assets	**3,686**	1,969
	174,988	92,619

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

At the end of the reporting period, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB54,627,000 (2009: Nil). In the opinion of the directors of the Company, the Group is not required to incur significant additional cost in obtaining the land use right certificates for the land in the PRC.

Details of land use rights pledged are set out in Note 36.

16. GOODWILL

	2010 RMB'000	2009 RMB'000
COST		
At beginning and end of the year	**19,246**	19,246
IMPAIRMENT		
At beginning and end of the year	**554**	554
CARRYING AMOUNT		
At end of the year	**18,692**	18,692

For the purposes of impairment testing, goodwill as at 31 December 2010 has been allocated to an individual cash generating unit (CGU) of a subsidiary in electricity and steam segment.

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

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 13% (2009: 13%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 5% (2009: 5%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. DEFERRED TAXATION

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

	Unrealised profit (loss) in inventories	Allowance for doubtful debts and inventories	Deferred income	Tax losses	Fair value adjustment on property, plant and equipment arising from business combination	Change in fair value of derivative financial	Undistributed profits subsidiaries of PRC instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	168	1,331	5,213	–	(5,994)	999	(774)	943
Credited (charged) to profit or loss	(398)	(1,021)	2,086	–	212	250	(385)	744
At 31 December 2009	(230)	310	7,299	–	(5,782)	1,249	(1,159)	1,687
Credited (charged) to profit or loss	1,179	(265)	(2,374)	801	212	(913)	(1,909)	(3,269)
At 31 December 2010	**949**	**45**	**4,925**	**801**	**(5,570)**	**336**	**(3,068)**	**(1,582)**

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

	2010	2009
	RMB'000	RMB'000
Deferred tax assets	**7,598**	9,910
Deferred tax liabilities	**(9,180)**	(8,223)
	(1,582)	1,687

18. INVENTORIES

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

Details of inventories pledged are set out in Note 36.

19. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
Trade receivables due from:		
— Third parties	**184,231**	135,477
— Related parties (Note 40(b))	**6,236**	2,442
	190,467	137,919

Included in the balance of trade receivables above, approximately RMB126,000,000 at 31 December 2010 (2009: RMB119,000,000) was pledged to banks to secure banking facilities granted to the Group (see Note 36).

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.

19. TRADE RECEIVABLES (continued)

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.

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

	2010 RMB'000	2009 RMB'000
31–90 days	**5,811**	27,840
91–365 days	**9,510**	9,097
Over 1 year	**2,174**	2,077
	17,495	39,014

19. TRADE RECEIVABLES (continued)

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

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

	RMB'000
At 1 January 2009	885
Written off during the year	(43)
At 31 December 2009	842
Reversed during the year	(522)
At 31 December 2010	320

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

20. 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 (see Notes 28 and 36).

20. BILLS RECEIVABLE (continued)

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.

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

	2010	2009
	RMB'000	RMB'000
0–90 days	**409,054**	235,493
91–180 days	**827,729**	297,622
	1,236,783	533,115

21. PREPAYMENTS AND OTHER RECEIVABLES

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

	2010	2009
	RMB'000	RMB'000
Prepayments to suppliers	**98,215**	24,425
Other receivables	**185,482**	31,402
Prepayments	**139**	918
	283,836	56,745

21. PREPAYMENTS AND OTHER RECEIVABLES (continued)

An analysis of other receivables is as follows:

	2010 RMB'000	2009 RMB'000
Value-added tax refund	**16,603**	22,876
Value-added tax recoverable	**159,117**	—
Deposit	**4,796**	3,750
Advance to employees	**3,582**	1,921
Interest receivable	**168**	1,032
Others	**1,216**	1,823
	185,482	31,402

22. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

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

The restricted bank deposits carry interest at market rates which range from 0.36% to 2.75% (2009: from 0.36% to 2.25%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

Bank balances carry market interest rate of 0.36% per annum as at 31 December 2010 (2009: 0.36% per annum).

Bank balances and cash at 31 December 2010 were mainly denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

23. TRADE PAYABLES AND BILLS PAYABLE

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 invoice 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

All the bills payable were trading nature and matured within six months from 31 December 2009.

24. OTHER PAYABLES

An analysis of other payables is as follows:

	2010 RMB'000	2009 RMB'000
Other payables	**20,041**	7,597
Advance from customers	**59,530**	60,711
Accrued payroll and welfare	**405**	1,987
Other tax payable	**11,295**	8,347
Interest payable	**1,401**	3,047
	92,672	81,689

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

25. OBLIGATIONS UNDER FINANCE LEASE (continued)

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

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**55,045**	—	**42,214**	—
In more than one year but not more than two years	**55,045**	—	**44,997**	—
In more than two years but not more than five years	**144,150**	—	**132,392**	—
	254,240	—	**219,603**	—
Less: future finance charges	**(34,637)**	—	**N/A**	N/A
Present value of lease obligations	**219,603**	—	**219,603**	—
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(42,214)**	—
Amount due for settlement after 12 months			**177,389**	—

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

26. DEFERRED INCOME

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

	Connection fee	**Value-added tax refund**	**Government grant related with land use right**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	2,400	18,469	—	20,869
Additions	1,006	7,667	1,593	10,266
Released to income	(379)	(1,512)	(34)	(1,925)
At 31 December 2009	3,027	24,624	1,559	29,210
Additions	1,400	—	1,000	2,400
Released to income	(497)	(1,512)	(33)	(2,042)
At 31 December 2010	**3,930**	**23,112**	**2,526**	**29,568**

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

	2010	2009
	RMB'000	RMB'000
Current portion	**2,073**	1,925
Non-current portion	**27,495**	27,285
	29,568	29,210

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 RMB'000	2009 RMB'000
Liabilities		
Foreign currency forward contracts (note i)	**458**	1,950
Interest rate swaps (note ii)	**1,784**	3,048
	2,242	4,998

Notes:

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

At 31 December 2010, the US dollar loans of RMB20,463,000 (31 December 2009: RMB136,539,000) and fixed deposits denominated in Renminbi of RMB22,890,000 (31 December 2009: RMB139,750,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the year ended 31 December 2010, interest income on the fixed deposits of RMB168,000 (31 December 2009: RMB1,032,000), exchange gain on US dollar loans of RMB335,000 (31 December 2009: exchange loss of RMB50,000) are included in profit or loss, while the interest expenses on US dollar loans of RMB217,000 (31 December 2009: RMB707,000) are included in finance cost as disclosed in Note 8.

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

Aggregate principal amount	Maturity	Forward exchange rate
2010		
US$3,089,858.42	From July 2011 to November 2011	Buy US$/sell RMB at 6.5521 to 6.7377
2009		
US$19,440,880.30	From May 2010 to December 2010	Buy US$/sell RMB at 6.7824 to 6.8856

At 31 December 2010, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB458,000 (31 December 2009: RMB1,950,000). The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were provided by the counterparty financial institutions at the end of the reporting period. The gain on change in fair value of the foreign currency forward contracts amounting to RMB1,497,000 (year ended 31 December 2009: loss on change in fair value of RMB4,086,000) has been recognised in the profit or loss for the year.

The US dollar loans are of fixed interest rates ranging from 3.06% to 3.48% (2009: from 0.91% to 1.98%) per annum as at 31 December 2010.

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

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

2010

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

2009

Notional amount	Maturity	Swaps
US$25,000,000	16 June 2014	From LIBOR to rate floored at 0.00% and capped at 3.5%
US$13,500,000	15 June 2014	From LIBOR to fixed rate of 2.5%

The interest swap contracts with the notional amount of US$25,000,000 was early terminated and approximately of RMB9,824,000 was recognised as loss during the year ended 31 December 2010.

The remaining contract is measured at fair value at 31 December 2010. Its fair values is determined based on the valuation provided by the relevant financial institution at the end of the reporting period. The fair value of interest rate swap contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract at the end of the reporting period. The loss on change in fair value of the interest rate swap contracts amounting to RMB787,000 has been recognised in the profit or loss for the year.

28. DISCOUNTED BILL FINANCING

	2010 **RMB'000**	2009 RMB'000
Discounted bill financing	**688,735**	126,606
Comprising:		
Discounted bill receivable from third party	**119,735**	126,606
Discounted bill receivable from subsidiaries of the Company	**569,000**	—
Total	**688,735**	126,606

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

During the year, bank bills issued by certain subsidiaries of the Company to the suppliers and other subsidiaries within the Group were discounted to the banks for financing. Bank deposits of RMB296,900,000 (2009: Nil) were pledged by the subsidiaries to the banks for bank bills issued.

29. BANK BORROWINGS

	2010 RMB'000	2009 RMB'000
Secured bank borrowings	**2,277,991**	1,247,197
Unsecured bank borrowings	**196,764**	515,710
	2,474,755	1,762,907
The borrowings are repayable as follows:		
Within one year	**1,419,074**	1,152,506
In the second year	**267,982**	170,485
In the third to fifth year inclusive	**771,143**	239,993
Over five years	**16,556**	199,923
	2,474,755	1,762,907
Less: Amount due for settlement within one year and shown under current liabilities	**(1,419,074)**	(1,152,506)
Amount due after one year	**1,055,681**	610,401
Total borrowings		
— At fixed rates	**1,115,149**	929,350
— At floating rates	**1,359,606**	833,557
	2,474,755	1,762,907
Analysis of borrowings by currency:		
— Denominated in RMB	**2,155,627**	1,318,150
— Denominated in United States dollars	**319,128**	444,757
	2,474,755	1,762,907

Fixed-rate borrowings are charged at the rates ranging from 0.91% to 8.02% per annum as at 31 December 2010 (2009: 0.91% to 12.04% per annum).

29. BANK BORROWINGS (continued)

Interest on RMB borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China whereas interests on United States dollars borrowings at floating rates are charged at 3.1% to 3.5% over LIBOR (2009: 3.1% to 3.5% over LIBOR).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2010 was 4.80% per annum (2009: 5.58% per annum).

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 36.

30. OTHER BORROWINGS

	2010	2009
	RMB'000	RMB'000
Borrowings from Weifang City Investment Co., Ltd. (濰坊市投資有限公司) ("Weifang Investment")	**14,000**	17,442

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

The effective weighted average annual rate for the year ended 31 December 2010 was 6.83% per annum (2009: 6.83% per annum).

31. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	1,000,000,000	100,000

	Notes	Number of shares	Share capital	Shown in the consolidated financial statements
			HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2009, 31 December 2009 and 1 January 2010		401,044,000	40,104	37,872
Bonus shares issued (Note)	(i)	401,044,000	40,104	34,436
Exercise of share options	(ii)	500,000	50	43
At 31 December 2010		**802,588,000**	**80,258**	**72,351**

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

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

32. RESERVES

Merger reserve

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

Capital reserve

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

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

Assets revaluation reserve

"昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd) ("Shengshi Thermoelectricity") has become the Company's subsidiary from associate of the Group in 2007. The assets revaluation reserve balance represents the fair value adjustment in respect of the Group's previously held interests in Shengshi Thermoelectricity, arising on acquisition of additional interests in it in 2007."

Statutory surplus reserve/discretionary surplus reserve

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

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

33. SHARE-BASED PAYMENT TRANSACTION

Pursuant to a resolution in writing passed on 19 November 2007 by all shareholders of the Company, two share option schemes have been adopted by the Company which would be applicable to grant of share options before and after the Company's listing on the Main Board of the Stock Exchange on 12 December 2007, respectively, and are hereinafter referred to as Pre-IPO Share Option Scheme and Share Option Scheme, respectively.

(a) Pre-IPO Share Option Scheme

On 19 November 2007, the Company granted options to the grantees to subscribe for 14,400,000 shares in the Company at an exercise price of HK$5.4 per share. The vesting of the option is subject to both the achievement of the operating and financial targets of the Group and the appraisal result of the grantees in the option scheme in both interim and annual period. Also, the grantees must remain in services with the Group until the vesting conditions are finalised.

Details of Pre-IPO Share Options are as follows:

Date of grant	Vesting period	Exercise period	Maximum number of options exercisable	Life of options
19 November 2007	19 November 2007 to 30 June 2008	1 July 2008 to 31 December 2008	2,880,000	6 months
19 November 2007	19 November 2007 to 31 December 2008	1 January 2009 to 31 December 2009	2,880,000	1 year
19 November 2007	19 November 2007 to 31 December 2009	1 January 2010 to 31 December 2010	2,880,000	1 year
19 November 2007	19 November 2007 to 31 December 2010	1 January 2011 to 31 December 2011	2,880,000	1 year
19 November 2007	19 November 2007 to 1 December 2011	1 January 2012 to 31 December 2012	2,880,000	1 year

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(a) Pre-IPO Share Option Scheme (continued)

Movement of options under Pre-IPO Share Option Scheme during the year ended 31 December 2009 is as follows:

		Number of options				
	Exercise price HK$	Outstanding at 1.1.2009	Exercised during the year ended 31.12.2009	Forfeited during the year ended 31.12.2009	Expired during the year ended 31.12.2009	Outstanding at 31.12.2009
Directors	5.40	3,200,000	–	(2,400,000)	(800,000)	–
Senior management	5.40	5,760,000	–	(4,320,000)	(1,440,000)	–
Other employees	5.40	2,560,000	–	(1,920,000)	(640,000)	–
		11,520,000	–	(8,640,000)	(2,880,000)	–
Exercisable at the end of the year						–

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(a) Pre-IPO Share Option Scheme (continued)

The fair value of the options determined at the date of grant using the Binomial Model is approximately HK$23,815,000 (equivalent to RMB22,301,000). The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	19.11.2007
Weighted average share price	HK$6
Exercise price	HK$5.4
Expected volatility	34%
Expected life	0.9 years to 4.8 years
Risk-free rate	1.88%-3.09%
Expected dividend yield	1%

Expected volatility has made reference to the historical volatility of the price of listed companies with similar business to the Group.

The remuneration committee and the directors of the Company continuously monitor the operating and financial target of the Group and the annual appraisal of the grantees. During the year ended 31 December 2009, due to the failure to satisfy the specific vesting conditions in the share option scheme, 8,640,000 share options were forfeited and related expenses of RMB5,523,000 previously recognised in profit or loss was reversed accordingly.

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(b) Share Option Scheme

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

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

Details of the share option scheme are as follows:

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

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(b) Share Option Scheme (continued)

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

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

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

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

33. SHARE-BASED PAYMENT TRANSACTION (continued)

(b) Share Option Scheme (continued)

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

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

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

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

34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in Note 29, other borrowings disclosed in Note 30 and equity attributable to owner of the Company, comprising issued share capital and reserves.

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

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables	**2,075,376**	1,401,026
Financial liabilities		
Liabilities at amortised cost	**4,836,920**	2,479,025
Derivative financial instruments	**2,242**	4,998

(b) Market risk

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

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

(i) Foreign currency risk management

PRC subsidiaries of the Company with functional currency of RMB have certain foreign currency sales, purchases, bank balances and cash and bank borrowings denominated in US Dollars, Hong Kong Dollars and EURO, which expose the Group to foreign currency risk. During the year, the Group has entered into foreign currency forward contracts to reduce its foreign exchange exposure on foreign currency denominated obligations.

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities, excluding foreign currency forward contracts and bank borrowings denominated in US$ as disclosed in note 27, at the end of the reporting period are as follows:

	2010 **RMB'000**	2009 RMB'000
Assets		
US Dollars		
Bank balances and cash	**18,613**	6,489
Trade receivables	**509**	2,738
Hong Kong Dollars		
Bank balances and cash	**1,189**	609
Other receivables	**183**	—
EURO		
Bank balances and cash	**2,907**	2,851
Trade receivables	**—**	814

	2010 **RMB'000**	2009 RMB'000
Liabilities		
US Dollars		
Trade payables	**122,686**	483,045
Bank borrowings	**298,665**	308,218
EURO		
Trade payables	**—**	123
Hong Kong Dollars		
Other payables	**548**	—

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

As disclosed in Note 27, the principal amounts and maturity terms of the foreign currency loans and forward contracts are similar, and the net exchange gain or loss arising from these instruments is not significant. Accordingly, the management decided to exclude in its consideration of the currency risk analysis.

Sensitivity analysis

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

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

	Impact of US Dollars		Impact of Hong Kong Dollars		Impact of EURO	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(a)	(a)	(b)	(b)	(c)	(c)
Increase (decrease) in profit for the year	**20,112**	39,102	**(41)**	(30)	**(145)**	(177)

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis (continued)

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

b. This is mainly attributable to the exposure to bank balances and payables denominated in Hong Kong Dollars at the end of the reporting period.

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

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings and discounted bill financing subject to negotiation on annual basis (see Note 28 and Note 29 for details of these discounted bill financing and borrowings). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see Notes 29 and 30 for details of these borrowings), finance lease obligations (see Notes 25), restricted bank deposits and bank balances and cash (see Note 22). The Group entered into certain interest rate swaps to partially reduce its exposures to variable-rate borrowings.

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

35. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk management (continued)

Sensitivity analysis (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank, other borrowings and obligation under finance leases, restricted bank deposits, bank balances and cash, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 50 basis points (2009: 50 basis points) and all other variables were held constant, the Group's profit would decrease (increase) by approximately RMB4,674,000 for the year ended 31 December 2010 (2009: RMB648,000).

(c) Credit risk

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

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

35. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

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

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

(d) Liquidity risk management

The Group had net current liabilities of approximately RMB802,065,000 as at 31 December 2010. The financial statement has been prepared on a going concern basis because the directors of the Company believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flow from operations.

The Group manages liquidity risk by maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings from time to time.

The Group relies on bank financing as a significant source of liquidity. As at 31 December 2010, the Group had available unutilised short-term bank loan and trade financing facilities of approximately RMB1,154,678,000 (2009: RMB1,288,272,000).

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

35. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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

	Weighted average interest rate	On demand	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	4.67	–	537,071	581,037	20,244	–	–	1,138,352	1,115,149
Variable-rate bank borrowings	5.37	–	110,413	280,778	298,089	877,374	16,908	1,583,562	1,359,606
Other borrowings	5.40	–	378	14,378	–	–	–	14,756	14,000
Trade payables		465,417	645,519	–	–	–	–	1,110,936	1,110,936
Other payables		21,847	–	–	–	–	–	21,847	21,847
Payable for construction work		307,044	–	–	–	–	–	307,044	307,044
Discounted bill financing		–	688,735	–	–	–	–	688,735	688,735
Obligations under finance lease	6.40	–	27,522	27,523	55,045	144,150	–	254,240	219,603
		794,308	2,009,638	903,716	373,378	1,021,524	16,908	5,119,472	4,836,920
Derivatives – net settlement									
Interest rate swaps		–	–	–	–	1,784	–	1,784	1,784
Foreign exchange forward contracts		–	218	240	–	–	–	458	458
		–	218	240	–	1,784	–	2,242	2,242
At 31 December 2009									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	4.73	–	580,614	351,296	1,188	20,261	–	953,359	929,350
Variable-rate bank borrowings	3.96	–	103,590	173,538	213,663	392,493	53,020	936,304	833,557
Other borrowings	5.40	–	471	17,677	–	–	–	18,148	17,442
Trade payables		161,198	195,452	–	–	–	–	356,650	356,650
Bills payables		–	10,000	–	–	–	–	10,000	10,000
Other payables		12,631	–	–	–	–	–	12,631	12,631
Payable for construction work		192,789	–	–	–	–	–	192,789	192,789
Discounted bill financing		–	126,606	–	–	–	–	126,606	126,606
		366,618	1,016,733	542,511	214,851	412,754	53,020	2,606,487	2,479,025
Derivatives – net settlement									
Interest rate swaps		–	–	–	–	3,048	–	3,048	3,048
Foreign exchange forward contracts		–	332	1,618	–	–	–	1,950	1,950
		–	332	1,618	–	3,048	–	4,998	4,998

35. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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

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

Included in above, discounted bill financing with carrying amount of approximately RMB119,735,000 (2009: RMB126,606,000) will be offset with corresponding bills receivable upon maturity.

(e) Fair value

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

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

Foreign currency forward contracts and interest rate swap contracts held at 31 December 2010 and 2009 are measured using level 2 fair value measurements which are derived from inputs other than quoted prices in active market, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

36. PLEDGE OF ASSETS

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

	2010 RMB'000	2009 RMB'000
Buildings	**428,844**	151,256
Plant, machinery and equipment	**665,696**	480,959
Prepaid lease payments	**120,361**	75,472
Inventories	**101,827**	102,191
Trade receivables	**126,000**	119,000
Restricted bank deposits	**412,687**	363,961
	1,855,415	1,292,839

In addition to the above, at the end of the reporting period, the balance of bills receivable of RMB119,735,000 (2009: RMB126,606,000) was discounted to banks, and property, plant and equipment of RMB235,000,000 (2009: Nil) was secured under finance lease arrangement.

37. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**369,662**	895,102

38. OPERATING LEASES

The Group as lessee

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	**493**	283

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

	2010 RMB'000	2009 RMB'000
Within one year	**233**	77

The Group as lessor

Property rental income earned during the year was RMB1,534,000 (2009:RMB827,000). All of the properties held have committed tenants for the next 5 years.

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

	2010 RMB'000	2009 RMB'000
Within one year	**586**	571
In the second to fifth year inclusive	**926**	—
	1,512	571

39. MAJOR NON-CASH TRANSACTION

During the current year, the group acquired property, plant and equipment for approximately RMB235,000,000, which was settled through finance lease arrangement.

40. RELATED PARTY TRANSACTIONS

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

	2010	2009
	RMB'000	RMB'000
Sales of goods to a minority shareholder of a subsidiary	**93,825**	79,523

40. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	2010	2009
	RMB'000	RMB'000
Trade receivable from a minority shareholder of a subsidiary	**6,236**	2,442

(c) Compensation of key management personnel

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

	2010	2009
	RMB'000	RMB'000
Short term employee benefit	**4,220**	2,746
Retirement benefit scheme contributions	**20**	30
Equity-settled share-based payment	**713**	—
	4,953	2,776

41. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

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

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

42. PARTICULARS OF SUBSIDIARIES

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

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/paid-in capital	Attributable equity interest held by the Company		Principal activity
				2010	2009	
Directly held						
China Sunshine Paper Group Limited 中國陽光紙業集團有限公司	Private limited company	British Virgin Islands	USD1	**100.00%**	100.00%	Investment holding
Indirectly held						
China Ramble Paper Company Limited 中國遠博紙業集團有限公司	Private limited company	Hong Kong	HKD1	**100.00%**	100.00%	Investment holding

42. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/paid-in capital	Attributable equity interest held by the Company 2010	2009	Principal activity
Hong Kong Hao Mai Trading Co., Ltd. 香港豪邁貿易有限公司	Private limited company	Hong Kong	HKD1,000	**100.00%**	100.00%	Trading
Century Sunshine Paper (USA) Inc. 世紀陽光紙業美國公司 (note i)	Private limited company	United States of America	–	**100.00%**	–	Trading
山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.)	Sino-foreign equity joint venture	PRC	USD111,732,800	**99.90%**	99.90%	Manufacture of paper products
昌樂新邁紙業有限公司 (Changle Numat Paper Industry Co., Ltd.)	Private limited company	PRC	RMB500,000,000	**100.00%**	100.00%	Manufacture of paper products
昌樂彩虹包裝製品有限公司 (Changle Rainbow Packaging Products Co., Ltd.)	Private limited company	PRC	RMB5,400,000	**100.00%**	99.00%	Manufacture of paper products
昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.)	Sino-foreign equity joint venture	PRC	USD2,495,000	**100.00%**	100.00%	Manufacture of paper products
青島東森再生紙有限公司 (Qingdao Dongsen Recycle Paper Co., Ltd.)	Private limited company	PRC	RMB1,000,000	**100.00%**	100.00%	Waste paper trading

42. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/paid-in capital	Attributable equity interest held by the Company 2010	2009	Principal activity
濰坊申易物流有限公司 (Weifang Shenyi Logistic Co., Ltd.)	Private limited company	PRC services	RMB23,320,000	**100.00%**	100.00%	Provision for transportation
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.)	Private limited company	PRC	RMB139,250,000	**80.00%**	80.00%	Generation and supply of electricity and steam
昆山陽光華邁包裝制品有限公司 (Kunshan Sunshine Huamai Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB15,363,000	**100.00%**	–	Manufacture of paper products

Notes:

(i) Newly incorporated during the year ended 31 December 2010.

(ii) None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2010 **RMB'000**	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Results					
Revenue	**2,456,540**	1,697,678	1,764,552	1,411,681	613,367
Profit before taxation	**202,768**	58,289	64,717	145,562	56,092
Taxation	**(28,446)**	(10,826)	1,471	(8,292)	(5,932)
Minority interests	**(4,708)**	(5,316)	(1,832)	(4,269)	(220)
Profit attributable to shareholders	**169,614**	42,147	64,356	133,001	49,940
Assets					
Non-current assets	**3,516,555**	2,016,307	1,619,887	999,696	505,186
Current assets	**2,898,617**	1,851,289	1,243,680	1,392,854	436,924
Total assets	**6,415,172**	3,867,596	2,863,567	2,392,550	942,110
Liabilities					
Non-current liabilities	**1,269,745**	645,909	193,742	157,929	—
Current liabilities	**3,700,682**	1,951,650	1,434,356	1,096,466	761,839
Total liabilities	**4,970,427**	2,597,559	1,628,098	1,254,395	761,839
Equity and reserves					
Total equity	**1,444,745**	1,270,037	1,235,469	1,138,155	180,271
Minority interests	**(53,987)**	(41,876)	(31,205)	(37,535)	(8,638)
Capital and reserves attributable to the Company's equity holders	**1,390,758**	1,228,161	1,204,264	1,100,620	171,633

Notes:

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

2. The results of the Group for the year ended 31 December 2006 and the balance sheets of the Group as at 31 December 2006 are extracted from the Prospectus.