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

Annual Report 2012

*For identification purposes only

CONTENTS

MAIN PRODUCTS

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 packaging material for boxes, which require high quality printability and stacking strength.

Light coated linerboard is a form of white top linerboard comprising a multiple-ply sheet made of a bleached upper ply layer coated writer 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, it 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Dongxing *(Chairman)*
Mr. Shi Weixin *(Vice Chairman)*
Mr. Ci Xiaolei *(General Manager)*
(Appointed on 24 May 2012)
Mr. Zhang Zengguo *(Deputy General Manager)*
Mr. Wang Yilong
(Resigned on 24 May 2012)

Non-Executive Directors

Mr. Wang Junfeng
Mr. Xu Fang

Independent Non-Executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Mr. Xu Ye

AUDIT COMMITTEE

Mr. Leung Ping Shing *(Chairman)*
Mr. Wang Zefeng
Mr. Xu Ye

REMUNERATION COMMITTEE

Mr. Wang Zefeng *(Chairman)*
Mr. Wang Dongxing
Mr. Leung Ping Shing

NOMINATION COMMITTEE

(Nomination committee was established on 27 March 2012, and its members were appointed on the same day)

Mr. Xu Ye *(Chairman)*
Mr. Wang Dongxing
Mr. Wang Zefeng

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

Suite 1627, 16/F
Ocean Centre
Harbour City
5 Canton Road
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedder Road, George Town
Grand Cayman KY1-1110
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 to as the "Group"), we are pleased to present the annual report of our Group for the financial year ended 31 December 2012.

OPERATION

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

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

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

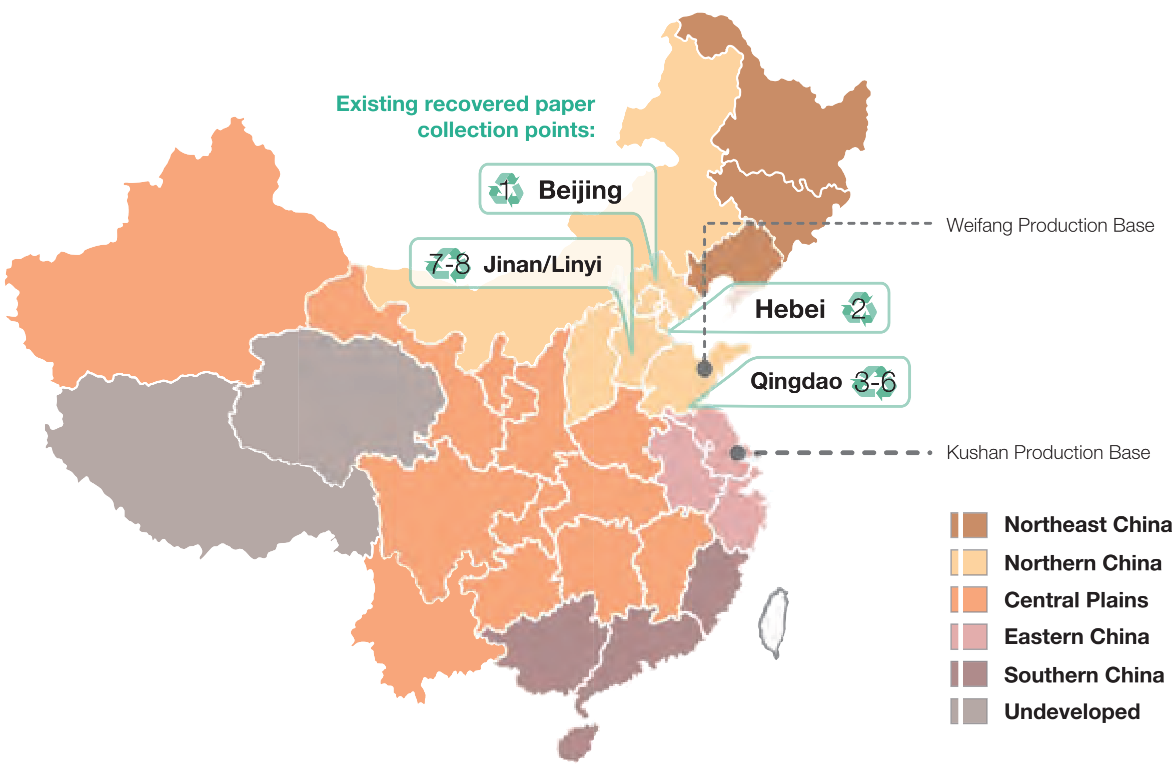
The following table set forth information relating to our Group's production lines as at 31 December 2012:

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

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

** *Approximate numbers*

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



OUTLOOK

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

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

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

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

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
26 March 2013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注意安全

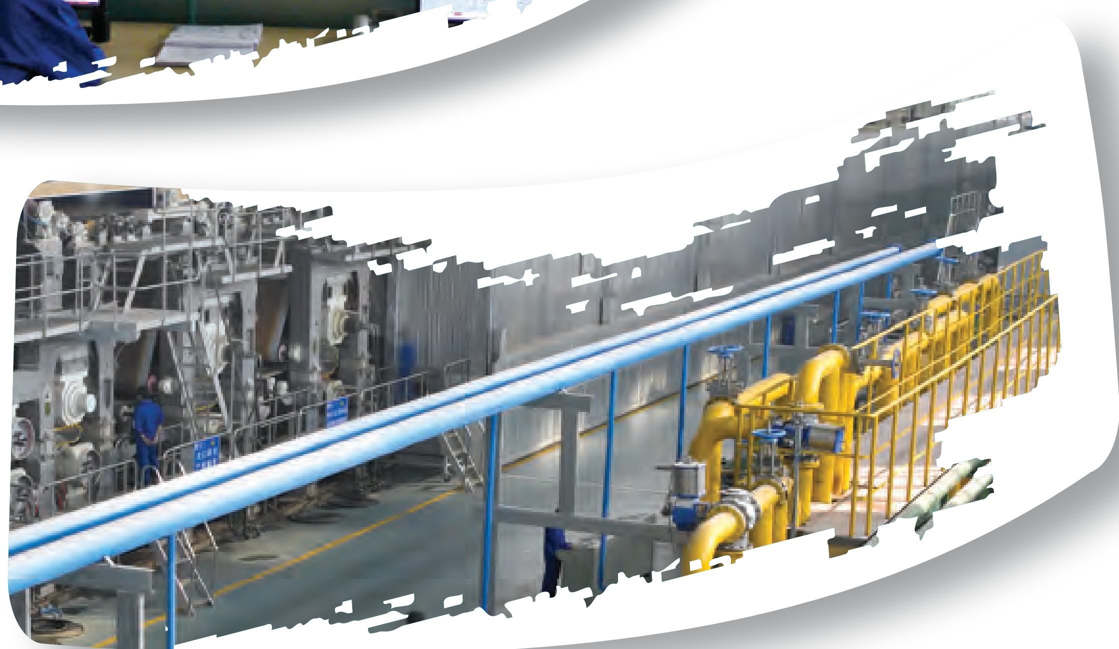

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL REVENUE AND ASP

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

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



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

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

* *approximate numbers*

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

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

* *approximate numbers*

COST OF SALES

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

OTHER PROFIT AND LOSS ITEMS

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

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

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

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

Finance costs increased from RMB258.1 million for FY 2011 to RMB335.4 million for FY 2012, representing an increase of approximately 23.0%. The increase was mainly driven by the higher bills discount charges of RMB54.7 million from more frequent uses of discounted bills facilities by our Group during FY 2012. Notwithstanding the increase in finance costs for FY 2012, the finance costs for the second half of FY 2012 was approximately RMB155.9 million, which was around 13.1% lower than that of RMB179.5 million in the first half of FY 2012.

INCOME TAX EXPENSES

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

TOTAL COMPREHENSIVE INCOME AND PROFIT FOR THE YEAR

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

LIQUIDITY AND FINANCIAL RESOURCES

Working capital

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

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

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

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

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

Cashflow

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

Gearing

Our net gearing ratio (calculated based on total of borrowings and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by the total equity) was 120.8% as at 31 December 2012, representing a continuous improvement as compared to 140.5% as at 30 June 2012 and 129.2% as at 31 December 2011.

Capital expenditure

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

Capital commitments and contingent liabilities

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

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

Pledge of assets

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

Employees and remuneration policies

As at 31 December 2012, we employed approximately 3,000 full-time employees in the PRC and Hong Kong. The staff costs for FY 2012 were approximately RMB136.0 million, representing an increase of RMB17.6 million over FY 2011 of approximately RMB118.4 million. The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Subsequent Events

(i) On 3 July 2012, Shandong Century Sunshine Paper Group Co., Ltd. (山東世紀陽光紙業有限公司) ("Century Sunshine") entered into a joint venture agreement (the "JV Agreement") with two independent third parties for the formation of the JV Company. The JV Company was established on 11 March 2013, in which we are interested as to 51% of its equity interest. Please refer to the circular of our Company dated 28 December 2012 regarding the formation of the joint venture.

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

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding 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 2012.

THE BOARD

Board responsibilities

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 company secretary of our Company; and

— monitor the performance of our 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.

Board composition

For the year ended 31 December 2012 and as at the date of this report, the Board comprises nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors, and the members of the Board are as follows:

Chairman:	Mr. Wang Dongxin
Executive Directors:	Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Ci Xiaolei (appointed on 24 May 2012), Mr. Zhang Zengguo and Mr. Wang Yilong (resigned on 24 May 2012)
Non-executive Directors:	Mr. Wang Junfeng and Mr. Xu Fang
Independent non-executive Directors:	Mr. Leung Ping Sing, Mr. Wang Zefeng and Mr. Xu Ye

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.

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

As to the relationships among our Board members, Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo are parties to a concert parties agreement. For further details of their relationship, please refer to notes 1 and 2 of the section headed "Directors' Interests in Securities". Other than the relationships between Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo, there is no other relationship between other members of our Board.

Retirement of Directors and re-election of Directors

In accordance with the articles of association of our Company, one third (or if their number is not a multiple of three, the number nearest to but 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 provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Mr. Wang Dongxing, Mr Xu Fang and Mr. Wang Zefeng will retire from office at the forthcoming annual general meeting of our Company to be held on 23 May 2013 and being eligible to and will offer themselves for re-election.

Independence of independent non-executive Directors

Our Company has received from each of our independent non-executive Directors an annual confirmation of his independence for the year ended 31 December 2012 in accordance with Rule 3.13 of the Listing Rules. Our Company considers all of the independent non-executive Directors are independent.

Board meetings and annual general meeting

For the year ended 31 December 2012, our Company held a total of four Board meetings and one annual general meeting. The attendance records of each member of the Board at Board meetings and annual general meeting are set out in the following table:

	Board meetings		**Annual general meeting**	
Director	**attendance/held**	**attendance %**	**attendance/held**	**attendance %**
Executive Directors				
Mr. Wang Dongxing	4/4	100	1/1	100
Mr. Shi Weixin	4/4	100	1/1	100
Mr. Ci Xiaolei	3/3 *(Note 1)*	100	—	—
Mr. Zhang Zengguo	4/4	100	—	—
Mr. Wang Yilong	1/1 *(Note 2)*	100	—	—
Non-executive Directors				
Mr. Wang Junfeng	4/4	100	—	—
Mr. Xu Fang	4/4	100	—	—
Non-executive Directors				
Mr. Leung Ping Shing	4/4	100	—	—
Mr. Wang Zefeng	4/4	100	—	—
Mr. Xu Ye	4/4	100	—	—

Note (1) Mr. Ci Xiaolei was appointed as an Executive Director on 24 May 2012. Three Board meetings were held from 24 May 2012 to 31 December 2012.

Note (2) Mr. Wang Yilong was resigned as an Executive Director on 24 May 2012. One Board meeting was held from 1 January 2012 to 23 May 2012.

Directors' training and continuous professional development

Each of our newly appointed Director is provided with the necessary induction and information to ensure that such Director has a proper understanding of our operations and businesses as well as his responsibilities under the Listing Rules and other relevant regulatory requirements.

Furthermore, from time to time, the company secretary of our Company, updates and provides training and written materials on the latest development of the applicable laws, rules and regulations to our Directors.

According to the records maintained by our Company, our Directors received the following training during the period from 1 April 2012 to 31 December 2012:

Director	**Type of training attended**
Executive Directors	
Mr. Wang Dongxing	A, B
Mr. Shi Weixin	A, B
Mr. Ci Xiaolei	A, B
Mr. Zhang Zengguo	A, B
Non-executive Directors	
Mr. Wang Junfeng	A, B
Mr. Xu Fang	A, B
Non-executive Directors	
Mr. Leung Ping Shing	A, B
Mr. Wang Zefeng	A, B
Mr. Xu Ye	A, B

Legends:

A — attended seminars, conferences and/or forums relating to the operations, businesses and the laws, rules and regulations relevant to our Group, and directors' duties and responsibilities.

B — reading materials relating to the operations, businesses and the laws, rules and regulations relevant to our Group, and directors' duties and responsibilities.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the Old CG Code and the New CG Code as 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 Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye. Mr. Leung Ping Shing is the chairman of the audit committee during the relevant period. During the year ended 31 December 2012, our audit committee held two meetings to review our results for the year ended 31 December 2011 and for the six months ended 30 June 2012, and our internal control systems.

REMUNERATION COMMITTEE

Our Board has established a remuneration committee in compliance with the Old CG Code and the New CG Code as 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 Mr. Leung Ping Shing. 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. During the year ended 31 December 2012, our remuneration committee held one meeting to determine the policy for the remuneration of our executive Directors and assess performance of our executive Directors.

NOMINATION COMMITTEE

Our Board has established a nomination committee in compliance with the New CG Code as set out in Appendix 14 of the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement our Company's corporate strategy.

The nomination 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. Xu Ye and Mr. Wang Zefeng. All members were appointed on 27 March 2012, and Mr. Xu Ye is the chairman of the nomination committee. During the year ended 31 December 2012, our nomination committee held one meeting to review the structure, size and composition of our Board, the retirement of our Directors by rotation and the re-appointment of retiring Directors at the forthcoming annual general meeting of our Company to be held on 23 May 2013.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during the year ended 31 December 2012. The attendance records of each member of our audit committee, remuneration committee and nomination committee are set out in the following table:

	Audit committee		Remuneration committee		Nomination committee	
Director	attendance/ held	attendance %	attendance/ held	attendance %	attendance/ held	attendance %
Executive Directors						
Mr. Wang Dongxing	–	–	1/1	100	1/1	100
Mr. Shi Weixin	–	–	–	–	–	–
Mr. Ci Xiaolei	–	–	–	–	–	–
Mr. Zhang Zengguo	–	–	–	–	–	–
Mr. Wang Yilong	–	–	–	–	–	–
Non-executive Directors						
Mr. Wang Junfeng	–	–	–	–	–	–
Mr. Xu Fang	–	–	–	–	–	–
Non-executive Directors						
Mr. Leung Ping Shing	2/2	100	1/1	100	–	–
Mr. Wang Zefeng	2/2	100	1/1	100	1/1	100
Mr. Xu Ye	2/2	100	–	–	1/1	100

COMPANY SECRETARY

The company secretary of our Company is Mr. Ng Cheuk Him. For the year ended 31 December 2012, Mr. Ng has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Ng are set out in the section headed "Directors, Senior Management and Staff" of this report.

CORPORATE GOVERNANCE POLICY

Our Board is responsible for developing and reviewing our Company's policies and practices on corporate governance, review and monitor the training and continuous professional development of our Directors and senior management of our Company, review and monitor our Company's policies and practices on compliance with legal and regulatory requirements, develop, review and monitor the code of conduct applicable to our Company's employees and directors and review our Company's compliance with the New CG Code and the disclosure in this corporate governance report. During the year ended 31 December 2012, the Board has carried out such responsibilities during the Board meetings held in the year.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, we have engaged the auditors of our Company for audit services only. 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 2012, our Board has reviewed the effectiveness of our internal control systems, in particular, 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 our 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 our Group and such review conducted during the year ended 31 December 2012 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 2012, 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 49.

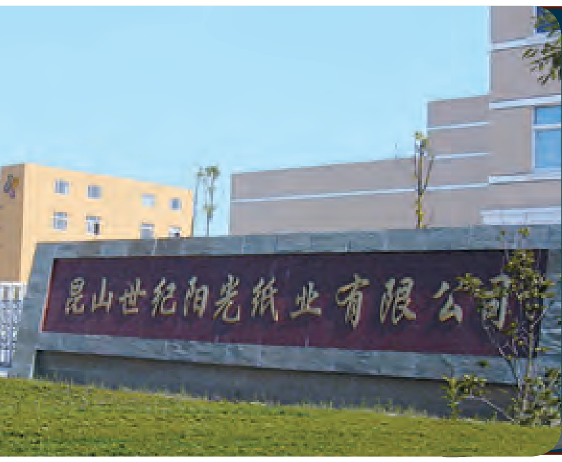
SHAREHOLDERS' RIGHTS

Under article 58 of the articles of association of our Company, in addition to annual general meeting, one or more shareholders of our Company holding 10% or more of the paid up capital of our Company carrying the right of voting at general meetings of our Company have the right to require an extraordinary general meeting to be called by our Board through written requisition, provided that on the date of requisition, such shareholder or shareholders are holding 10% or more of the paid up capital of our Company. Such extraordinary general meeting called may transact any business specified in the said written requisition and such meeting shall be held within two calendar months after the deposit of the written requisition. If within 21 days of such deposit, our Board fails to proceed to convene such meeting, the shareholder or shareholders requesting the meeting may do so in the same manner and all reasonable expenses incurred by such shareholder or shareholders as a result of the failure of our Board to convene such meeting shall be reimbursed by our Company. The same procedures applies to any proposal to be tabled at the annual general meeting for adoption.

We value opinions from our shareholders and acknowledge the importance of communication with our shareholders. We have created a section titled "Investors Relations" on our Company's website www.sunshinepaper.com.cn where shareholders may access the published information, announcements and circulars of our Company. Shareholders who have enquiries may also send us email to the email accounts as disclosed in "Investors Relations" on our Company's website.

CHANGES IN CONSTITUTIONAL DOCUMENTS

Other than the amendments in the terms of reference of our nomination committee, audit committee and remuneration committee based on the New CG Code, there are no significant changes to the constitutional documents of our Company during the year ended 31 December 2012.


昆山世纪阳光纸业有限公司


Report of the Audit Committee

REPORT OF THE AUDIT COMMITTEE

MEMBERS

The audit committee of our Company consists of three independent non-executive Directors, namely, Mr. Leung Ping Shing, 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 as at 31 December 2012, 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, 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 2012 and all members 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 2011;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2012;
- reviewed the external auditor’s audit plan, FY2012 letter of representation and audit engagement letter;
- considered and approved the FY2012 external audit fees;
- reviewed our Company’s internal control systems; and
- reviewed the “Continuing Connected Transactions” set out on pages 46 to 47 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 2013.

For the year ended 31 December 2012, 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 2012.


阳光


陽光會館
SUNSHINE CLUB

Directors, Senior Management and Staff

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	50	Chairman of our Board, a member of the remuneration committee and a member of the nomination committee
Mr. Shi Weixin	56	Vice chairman of our Board
Mr. Ci Xiaolei (Appointed on 24 May 2012)	37	General manager of our Group
Mr. Zhang Zengguo	47	Deputy general manager of our Group
Mr. Wang Yilong (Resigned on 24 May 2012)	50	
Non-executive Directors		
Mr. Wang Junfeng	39	
Mr. Xu Fang	35	
Independent non-executive Directors		
Mr. Leung Ping Shing	54	Chairman of the audit committee and a member of the remuneration committee
Mr. Wang Zefeng	52	Chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee
Mr. Xu Ye	40	Chairman of the nomination committee and a member of the audit committee

EXECUTIVE DIRECTORS

Mr. Wang Dongxing, aged 50, is an executive Director and the chairman of our Board. Mr. Wang is also a member of the remuneration committee and a member of the nomination committee of our Board. 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 Century Sunshine Paper Industry Co., Ltd. ("Changle Sunshine") in 2000 and was previously the general manager of Century Sunshine. Mr. Wang is also a director of China Sunshine Paper Investments Limited ("China Sunshine") and China Sunrise Paper Holdings Limited ("China Sunrise"), controlling shareholders of our Company. 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 56, 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. Mr. Shi is also a director of China Sunshine and China Sunrise, controlling shareholders of our Company. 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 ("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.

Mr. Ci Xiaolei, aged 37, is the general manager and the general engineer of our Group, and is responsible for the production management of our Group. Mr. Ci is also the general manager of Century Sunshine since March 2012. 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 the production facilities of our Group. Prior to joining the Group, Mr. Ci worked at Shandong Chenming Paper Industry Group Co., Ltd. and was responsible for equipment management and maintenance. Mr. Ci has been appointed as an Executive Director with effect from 24 May 2012.

Mr. Zhang Zengguo, aged 47, 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. Further, Mr. Zhang is a director of China Sunshine and China Sunrise, controlling shareholders of our Company. 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.

NON-EXECUTIVE DIRECTORS

Mr. Wang Junfeng, aged 39, is a non-executive Director. He obtained a Bachelor's degree majoring in Chemistry in Lanzhou University (蘭州大學) in 1995 and a MBA degree majoring in finance from McMaster University of Canada in 2004. He is currently the managing director of Legend Capital Management Limited (北京君聯資本管理有限公司) and is responsible for investment management. Legend Capital Management Limited is the investment manager of LC Fund III, L.P., which in turn holds the entire interest of Good Rise Holdings Limited, a substantial shareholder of our Company. Mr. Wang has been a director of Hiconics Drive Technology Co., Ltd (SHE: 300048) (北京合康億盛變頻科技股份有限公司), a company listed on the Shenzhen Stock Exchange since March 2009. 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. Pursuant to the exiting letter of appointment entered into between Mr. Wang and our Company, the appointment of Mr. Wang is for a period of three years commencing from 12 December 2010.

Mr. Xu Fang, aged 35, 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. Pursuant to the existing letter of appointment entered into between Mr. Xu and our Company, the appointment of Mr. Xu was for a period of three years commencing from 19 November 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Ping Shing, aged 54, is an independent non-executive Director. Mr. Leung joined our Group in 2010. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of our Board. 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. Wang Zefeng, aged 52, is an independent non-executive Director. Mr. Wang joined our Group in 2007. Mr. Wang is also the chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee of our Board. 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 40, is an independent non-executive Director. Mr. Xu joined our Group in 2007. Mr. Xu is also the chairman of the nomination committee and a member of the audit committee of our Board. 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.

SENIOR MANAGEMENT

Mr. Chen Xiaojun, aged 44, is the deputy general manager of our Group and is responsible for project management. He graduated from the Shandong Institute of Light Industry in 1991, with a major in mechanical design. Mr. Chen joined our Group in 2001. Prior to joining our Group, Mr. Chen worked at Shandong Chenming Paper Industry Group Co., Ltd and was responsible for mechanical engineering.

Mr. Liu Wenzheng, aged 41, 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 56, 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. Wang Changhai, aged 42, 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.

Mr. Wu Jun, aged 50, is the deputy general manager of our Group and is responsible for overseas sales. Mr. Wu joined our Group in 2009, and was promoted to the deputy general manager of our Group in 2012. Prior to joining our Group, Mr. Wu worked at Shandong Chenming Paper Industry Group Co., Ltd, ABB China Limited and Interpaper China Limited

Mr. Zhang Hongming, aged 42, is the deputy general manager of our Group and is responsible for domestic sales. He was previously responsible for the production management of our Group. Mr. Zhang joined our Group in 2001.

Mr. Ng Cheuk Him, aged 38, is the chief financial officer 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.

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 2012.

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 2012 are set out in the consolidated financial statements on page 51.

DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2012 (HK$0.025 per ordinary share for the year ended 31 December 2011).

RESERVES

Details of the change in reserves of our Group for the year ended 31 December 2012 are set out in the consolidated financial statements on page 54.

DONATIONS

During to financial year ended 31 December 2012, our Group donated a total of RMB0.2 million (2011: RMB0.4 million) for charitable purpose.

PROPERTY, PLANT AND EQUIPMENT, AND LAND USE RIGHTS

Details of the movements in the property, plant and equipment, and land use rights of our Group during the year ended 31 December 2012 are set out in notes 16 and 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of our Company during the year ended 31 December 2012 are set out in note 39 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 116.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 49 to the consolidated financial statements.

BORROWINGS

Details of the borrowings of our Group are set out in notes 37 and 38 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the financial year ended 31 December 2012, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of our Company.

DIRECTORS

The Directors who held office during the year ended 31 December 2012 and up to the date of this report were:

Executive Directors

Mr. Wang Dongxing *(Chairman of our Board)*
Mr. Shi Weixin *(Vice chairman of our Board)*
Mr. Ci Xiaolei *(General manager of our Group)*
(Appointed on 24 May 2012)
Mr. Zhang Zengguo *(Deputy general manager of our Group)*
Mr. Wang Yilong
(Resigned on 24 May 2012)

Non-executive Directors

Mr. Xu Fang
Mr. Wang Junfeng

Independent non-executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Mr. Xu Ye

In accordance with the articles of association of our Company, one third (or if their number is not a multiple of three, the number nearest to but 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 provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Mr. Wang Dongxing, Mr Xu Fang and Mr. Wang Zefeng will retire from office at the forthcoming annual general meeting of our Company to be held on 23 May 2013, and being eligible to and, will offer themselves for re-election.

Our Company has received from each of its independent non-executive Directors an annual confirmation of his independence during the year ended 31 December 2012 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 Wang Dongxing, Shi Weixin and Zhang Zengguo 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.

Mr. Ci Xiao has signed a letter of appointment dated 24 May 2012 with our Company for a term of three years commencing from 24 May 2012 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 2012 are set out in note 11 to the consolidated financial statements.

Except as disclosed above, none of our Directors has a service contract or a letter of appointment 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 2012, 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 share	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%
	Beneficial owner	4,486,000	0.56%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company(1)	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	4,486,000	0.56%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company(1)	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	4,486,000	0.56%
Mr. Ci Xiaolei	Beneficial owner	829,000	0.10%

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"). The members of 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 China Sunshine, 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 and Mr. Zhang Zengguo, is deemed to be interested in the 325,387,052 Shares held by China Sunrise.*

2. *Mr. Shi Weixin and Mr. Zhang Zengguo, as parties to the Concert Parties Agreement, are deemed to be interested in the 4,486,000 Shares held by Mr. Wang Dongxing under section 318 of the SFO.*

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 2012, 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%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	4,486,000	0.56%
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%
Seabright SOF (I) Paper Limited	Long	Beneficial interest	71,341,244	8.89%
Seabright China Special Opportunities (I) Limited[8]	Long	Interest of a controlled corporation	71,341,244	8.89%
Seabright Asset Management Limited[9]	Long	Interest of a controlled corporation	71,341,244	8.89%
China Everbright Limited[10]	Long	Interest of a controlled corporation	71,341,244	8.89%
Seagate Global Advisors, LLC[10]	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. Further, Mr. Wang Dongxing is interested in 4,486,000 Shares as beneficial owner. Other members of the Controlling Shareholder Group, being member of the Concert Parties Agreement, are deemed to be interested in such shares held by Mr. Wang Dongxing under section 318 of the SFO.*

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. *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.*

9. *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.*

10. *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 2012.

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 appraisal 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 daily quotations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 2012	Granted during the year	Exercised during the year	Expired during the year	As at 31 December 2012	Exercise period
8 April 2010	An employee	800,000	—	—	(800,000)	—	(i)
8 April 2010	An employee	800,000	—	—	—	800,000	(ii)
8 April 2010	An employee	800,000	—	—	—	800,000	(iii)

(i) *From 1 July 2011 to 31 December 2012*

(ii) *From 1 July 2012 to 31 December 2013*

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

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 2012 our Group had around 3,000 full-time employees. The staff costs for the year ended 31 December 2012 was approximately RMB136.0 million, representing an increase of RMB17.6 million over last year of approximately RMB118.4 million.

The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. 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 47 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 2012, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB76.9 million, which was below the annual cap of RMB161.6 million for the year ended 31 December 2012.

(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 electricity 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 2012, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB44.6 million, which was below the annual cap of RMB80.2 million for the year ended 31 December 2012.

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 our Shareholders as a whole; and

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

On 31 December 2012, our Group has entered into a new steam supply agreement and a new electricity supply agreement with Shengtai Medicine for a term of three years from 1 January 2013 to 31 December 2015. These two agreements are renewable for term(s) not more than three years each upon expiry. The terms of these new agreements are substantially the same as the agreements entered into on 27 October 2009. These agreements, the transactions contemplated under such agreements and the relevant annual cap amounts are considered non-exempt continuing connected transactions under Chapter 14A of the Listing Rule, subject to reporting, announcement and independent shareholders' approval requirement. The Stock Exchange has granted a waiver that in lieu of holding physical shareholders' meeting, the written approvals from China Sunrise, Good Rise Holdings Limited and Seabright SOF (I) Paper Limited, which are regarded as a closely allied group of shareholders of our Company, be accepted to approve these new agreements, the transaction contemplated under these agreements and the annual cap amounts. These agreements, the transactions contemplated under such agreements and the annual cap amounts have been approved by such shareholders. For further details, please refer to our circular dated 29 January 2013.

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 undertakings under such deed of non-competition have been complied with by the Covenantors.

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 2012 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

26 March 2013

Deloitte.
德勤

TO THE SHAREHOLDERS 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 51 to 115, which comprise the consolidated statement of financial position as at 31 December 2012, 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.

DIRECTORS' 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.

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 2012, 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

26 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	6	**3,704,180**	3,721,189
Cost of sales		**(3,088,852)**	(3,095,052)
Gross profit		**615,328**	626,137
Other income, gains and losses	8	**117,619**	82,429
Distribution and selling expenses		**(223,193)**	(204,263)
Administrative expenses		**(135,956)**	(131,156)
Change in fair value of derivative financial instruments		**430**	691
Change in fair value of investment properties	17	**32,706**	—
Finance costs	9	**(335,439)**	(258,141)
Profit before tax	10	**71,495**	115,697
Income tax expense	12	**(16,929)**	(27,188)
Profit for the year		**54,566**	88,509
Other comprehensive income	13		
Gain on revaluation of leasehold properties		**20,373**	—
Income tax relating to component of other comprehensive income		**(4,761)**	—
Other comprehensive income for the year, net of income tax		**15,612**	—
Total comprehensive income for the year		**70,178**	88,509
Profit for the year attributable to:			
Owners of the Company		**43,983**	82,402
Non-controlling interests		**10,583**	6,107
		54,566	88,509
Total comprehensive income attributable to:			
Owners of the Company		**59,593**	82,402
Non-controlling interests		**10,585**	6,107
		70,178	88,509
		RMB	RMB
Earnings per share	15		
— Basic		**0.05**	0.10
— Diluted		**0.05**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	**3,252,719**	3,387,027
Investment Property	17	**241,728**	—
Prepaid lease payments	18	**188,798**	169,787
Goodwill	19	**18,692**	18,692
Deferred tax assets	20	**10,612**	8,540
Assets held for establishment of jointly controlled entity	29	**103,530**	—
Deposits	21	**122,185**	50,000
		3,938,264	3,634,046
Current assets			
Prepaid lease payments	18	**3,853**	3,465
Inventories	22	**656,496**	625,107
Trade receivables	23	**392,456**	362,326
Loan receivable	24	**50,000**	—
Bills receivable	25	**528,567**	783,666
Prepayments and other receivables	27	**323,603**	384,637
Income tax recoverable		**6,000**	1,208
Restricted bank deposits	28	**1,162,368**	935,471
Bank balances and cash	28	**258,391**	248,278
		3,381,734	3,344,158
Assets classified as held for sale	29	**157,550**	—
		3,539,284	3,344,158
Current liabilities			
Trade payables	30	**408,602**	551,362
Bills payable	31	**90,000**	206,500
Other payables	32	**111,331**	180,011
Payable for construction work, machinery and equipment		**58,036**	156,160
Income tax payable		**3,915**	783
Obligations under finance leases—current portion	33	**95,372**	53,624
Deferred income—current portion	34	**2,103**	1,995
Derivative financial instruments	35	**259**	1,380
Discounted bill financing	36	**1,870,699**	1,188,542
Bank borrowings—due within one year	37	**2,355,939**	2,078,456
Other borrowings	38	**14,000**	14,000
		5,010,256	4,432,813
Net current liabilities		**1,470,972**	1,088,655
Total assets less current liabilities		**2,467,292**	2,545,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	39	**72,351**	72,351
Reserves	40	**1,412,151**	1,368,855
Equity attributable to owners of the Company		**1,484,502**	1,441,206
Non-controlling interests		**85,323**	73,155
Total equity		**1,569,825**	1,514,361
Non-current liabilities			
Obligations under finance leases—non-current portion	33	**195,351**	170,656
Bank borrowings—due after one year	37	**656,469**	823,120
Deferred income—non-current portion	34	**25,460**	27,371
Deferred tax liabilities	20	**20,187**	9,883
		897,467	1,031,030
Total equity and non-current liabilities		**2,467,292**	2,545,391

The consolidated financial statements on pages 51 to 115 were approved by the board of directors on 26 March 2013 and are signed on its behalf by:

Wang Dongxing	Ci Xiaolei
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital	Capital redemption reserve	Share premium	Merger reserve	Capital reserve	Share options reserve	Assets revaluation reserve	Statutory surplus reserve	Discretionary surplus reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (note 40)	RMB'000 (note 40)	RMB'000	RMB'000 (note 40)	RMB'000 (note 40)	RMB'000 (note 40)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	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
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	–	82,402	82,402	6,107	88,509
Capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	16,000	16,000
Acquisition of additional interest in a subsidiary (note i)	–	–	–	–	1,006	–	–	–	–	–	1,006	(2,933)	(1,927)
Recognition of equity-settled share-based payments (note 41)	–	–	–	–	–	444	–	–	–	–	444	–	444
Transfer	–	–	–	–	–	–	–	9,590	–	(9,590)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividend paid to owners of the Company (note 14)	–	–	(33,404)	–	–	–	–	–	–	–	(33,404)	–	(33,404)
At 31 December 2011	72,351	610	712,536	(2,776)	84,783	999	4,196	62,603	5,429	500,475	1,441,206	73,155	1,514,361
Profit for the year	–	–	–	–	–	–	–	–	–	43,983	43,983	10,583	54,566
Other comprehensive income for the year	–	–	–	–	–	–	15,610	–	–	–	15,610	2	15,612
Total comprehensive income for the year	–	–	–	–	–	–	15,610	–	–	43,983	59,593	10,585	70,178
Capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	4,000	4,000
Acquisition of additional interest in a subsidiary (note ii)	–	–	–	–	338	–	–	–	–	–	338	(2,411)	(2,073)
Recognition of equity-settled share-based payments (note 41)	–	–	–	–	–	219	–	–	–	–	219	–	219
Transfer upon expiry of share options	–	–	–	–	–	(856)	–	–	–	856	–	–	–
Transfer	–	–	–	–	–	–	–	9,447	–	(9,447)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividend paid to owners of the Company (note 14)	–	–	(16,854)	–	–	–	–	–	–	–	(16,854)	–	(16,854)
At 31 December 2012	72,351	610	695,682	(2,776)	85,121	362	19,806	72,050	5,429	535,867	1,484,502	85,323	1,569,825

Notes:

(i) On 20 September 2011, the Company acquired additional interests of 4.54% in 昌樂昌東廢紙收購有限公司 (Changle Changdong Waste Paper Recovery Co., Ltd) ("Changdong Paper Recovery"), from its non-controlling shareholder with an aggregate consideration of RMB1,927,000. Upon the completion of the transactions, the Company's equity interests in Changdong Paper Recovery increased from 91% to 95.54% accordingly.

(ii) On 18 September 2012, the Company acquired additional interests of 4.46% in Changdong Paper Recovery from its non-controlling shareholders with an aggregate consideration of RMB2,073,000. Upon the completion of the transactions, the Company's equity interests in Changdong Paper Recovery increased from 95.54% to 100.00% accordingly.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
Profit before tax	**71,495**	115,697
Adjustments for:		
Interest income	**(27,855)**	(20,374)
Finance costs	**335,439**	258,141
Depreciation of property, plant and equipment	**192,473**	169,417
Release of prepaid lease payments	**3,481**	3,716
(Gain) loss on disposal of property, plant and equipment	**(6,326)**	3,261
Reversal of allowance for trade receivables	**—**	(242)
Release of deferred income	**(2,103)**	(1,995)
Expense recognised in profit or loss in respect of equity-settled share-based payment	**219**	444
Gain on fair value changes of derivative financial instruments	**(430)**	(691)
Gain on fair value changes of investment properties	**(32,706)**	—
Operating cash flows before movements in working capital	**533,687**	527,374
Increase in inventories	**(31,389)**	(79,626)
Increase in trade receivables	**(30,130)**	(171,617)
Decrease in bills receivable	**262,199**	453,117
Decrease (increase) in prepayments and other receivables	**54,684**	(100,801)
Decrease in trade payables	**(142,760)**	(556,718)
(Decrease) increase in bills payable	**(116,500)**	206,500
(Decrease) increase in other payables	**(48,941)**	62,974
Settlement of interest swap contract	**(825)**	—
Cash generated from operations	**480,025**	341,203
Income tax paid	**(15,118)**	(49,544)
Net cash generated from operating activities	**464,907**	291,659

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(477,007)**	(385,387)
Prepaid lease payments of land use rights	**(69,902)**	(1,980)
Proceeds on disposal of property, plant and equipment	**2,548**	5,616
Increase in loans receivable	**(50,000)**	—
Government grants received	**300**	1,793
Interest received	**26,736**	19,851
Increase in restricted bank deposits	**(226,897)**	(522,784)
Deposit for acquisition of prepaid lease payment	**(78,565)**	—
Deposit for acquisition of property, plant and equipment	**—**	(50,000)
Guarantee deposits for financial leases	**(43,620)**	—
Net cash used in investing activities	**(916,407)**	(932,891)
Financing activities		
Acquisition of additional interests in a subsidiary	**(2,073)**	(1,927)
Capital contribution by non-controlling shareholders of subsidiaries	**4,000**	16,000
New borrowings raised	**3,385,534**	2,473,312
Borrowings repaid	**(3,274,912)**	(2,046,812)
Increase in discounted bill financing	**682,157**	499,807
Dividends paid to non-controlling shareholders of a subsidiary	**(6)**	(6)
Interest paid	**(360,676)**	(267,323)
Dividend paid	**(16,854)**	(33,404)
Repayment of instalments under finance lease	**(75,437)**	(47,814)
Proceeds from sale and finance lease back transactions	**141,880**	50,000
Repayment of advance from related parties	**(22,000)**	22,000
Net cash generated from financing activities	**461,613**	663,833
Net increase in cash and cash equivalents	**10,113**	22,601
Cash and cash equivalents at beginning of the year	**248,278**	225,677
Cash and cash equivalents at end of the year, representing bank balances and cash	**258,391**	248,278

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 12 December 2007. In the opinion of the directors, the Company's controlling shareholder is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands) and its controlling shareholder is China Sunshine Paper Investments Limited (incorporated in the British Virgin Islands ("BVI")). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its subsidiaries operate (the functional currency of the Company and its subsidiaries).

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are production and sale of paper products.

2. BASIS OF PREPARATION

The Group had net current liabilities of RMB1,470,972,000 as at 31 December 2012. As stated in Notes 43(d) and 50(ii), the directors of the Company are of the opinion that, taking into account the present available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks), short-term financing notes issued subsequent to 31 December 2012 and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of issuance of these consolidated financial statements. Hence, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

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

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

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

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

Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

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

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 37). The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to IFRS 7 (see note 26).

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

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

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

Except as described below, the directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the results and the financial position of the Group.

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

Annual Improvements to IFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to IFRSs 2009–2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at 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 reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 recognition 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as 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 2015, with earlier application permitted.

The directors of the Company anticipate IFRS 9 will be adopted in the Group's consolidated financial statements for the year beginning on 1 January 2015. The directors of the Company consider the application of IFRS 9 will not affect the classification and measurement of the Group's financial assets or liabilities based on an analysis of the Group's financial assets and liabilities as at 31 December 2012.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised 2011) and IAS 28 (Revised 2011).

IFRS 10 Consolidated and Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC — Int 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Over all, the application of IFRS 10 requires a lot of judgment.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards. Significant effort may be required to collect the necessary information.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company anticipate the five standards will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2013. The adoption of these five standards will not have any material effect on the amounts reported in the Group's consolidated financial statements but it will lead to more extensive disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

IFRS 13 Fair Value Measurement (continued)

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipated that the standard will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2013 and the application of IFRS 13 may affect the amounts reported in the consolidated financial statements and will result in more extensive disclosures in the consolidated financial statements, particularly, in relation to the investment properties carried at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

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.

Income and expenses 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests 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 (capital reserve) and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation was initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is allocated to each of the relevant cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is 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. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 the 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.

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including properties under construction for such purpose.

Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

Investment properties transferred from property, plant and equipment are initially measured at fair value, which is the deemed cost of the property. Subsequent to initial recognition, investment properties are measured at their fair values. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the 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 recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised 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 expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

For sale and leaseback transaction that results in a finance lease, the Group continues to recognise the asset at its previous carrying amount. No adjustment is necessary if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset unless there has been impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36 Impairment of Assets.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payment can be made reliably, whilst the building element is classified as property, plant and equipment, interest in leasehold land is accounted for as an operating lease and presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

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 or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. 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 consolidated 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 defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in the People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme, are recognised as an expense 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

For the purpose of measuring deferred tax liabilities or deferred assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment properties is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred assets for such investment properties are measured in accordance with the above general principles set out in IAS 12.

Current and deferred tax is recognised 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 options 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 original estimates during the vest period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets other than goodwill

At the end of the 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, directs 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 of completion and costs necessary to make the sale.

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 (other than financial assets or financial liabilities at fair value through profit or loss) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are all classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 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.

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, loan receivable, 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 considered to be 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 affected.

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, in addition, 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 past the credit period of 30 to 45 days, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables' original effective interest rate.

4. 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 instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including bank and other borrowings, discounted bill financing, trade payables, bills payable and other payables) are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments *(continued)*

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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.

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 is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 amount of the inventories and allowance for inventories in the year in which such estimate has been changed. As at 31 December 2012, the carrying amount of inventories is approximately RMB656,496,000 (2011: RMB625,107,000).

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 2012, the aggregate carrying amount of trade, bills, loan and other receivables is approximately RMB1,222,210,000 (2011: RMB1,385,005,000). Details of movements of allowance for doubtful receivables are disclosed in Note 23.

Deferred tax assets

As at 31 December 2012, deferred tax assets of RMB10,612,000 (31 December 2011: RMB8,540,000) in relation to tax losses and temporary differences set out in Note 20 has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the remaining unused tax losses of RMB7,273,000 (2011: RMB256,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material adjustment of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such an adjustment takes place.

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 16. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

6. REVENUE

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

7. SEGMENT INFORMATION

(a) Operating segments

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the Company's senior executive management, being the chief operating decision maker, in order to allocate resources to segments and assess their performance.

Segment revenue and results

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

For the year ended 31 December 2012

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	**1,066,955**	**1,594,663**	**551,756**	**342,575**	**148,231**	**3,704,180**
Inter-segment revenue	**—**	**—**	**—**	**—**	**516,858**	**516,858**
Segment revenue	**1,066,955**	**1,594,663**	**551,756**	**342,575**	**665,089**	**4,221,038**
Segment profit	**210,872**	**210,573**	**125,938**	**45,167**	**66,891**	**659,441**

For the year ended 31 December 2011

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialized paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	1,221,544	1,511,551	600,111	273,625	114,358	3,721,189
Inter-segment revenue	—	—	—	—	483,453	483,453
Segment revenue	1,221,544	1,511,551	600,111	273,625	597,811	4,204,642
Segment profit	197,745	193,834	136,287	86,103	42,867	656,836

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment profit represents the gross profit earned by each paper product 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 and change in fair value of investment properties to individual operating segment when making decisions about resources to be allocated to the segment and assessing its performance.

7. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results *(continued)*

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

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

Depreciation of property, plant and equipment and release of prepaid lease payments, finance cost and interest income amounted to RMB43,477,000 (2011: RMB39,667,000), RMB54,577,000 (2011: RMB31,198,000), and RMB3,637,000 (2011: RMB1,810,000) was included in segment profit of the electricity and steam segment.

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

(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.

8. OTHER INCOME, GAINS AND LOSSES

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

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

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

9. FINANCE COSTS

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

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

10. PROFIT BEFORE TAX

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Total emoluments RMB'000
2012					
Executive directors:					
Wang Dongxing (Note ii)	50	236	—	642	928
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	148	4	265	467
Wang Yilong	50	—	—	—	50
Non-executive directors:					
Xu Fang	50	—	—	—	50
Wang Junfeng	50	—	—	—	50
Independent non-executive directors:					
Leung Ping Shing	97	—	—	—	97
Wang Zefeng	50	—	—	—	50
Xu Ye	50	—	—	—	50
	497	384	4	907	1,792

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Directors (continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Total emoluments RMB'000
2011					
Executive directors:					
Wang Dongxing (Note ii)	50	199	—	1,050	1,299
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	136	3	125	314
Wang Yilong	50	—	—	—	50
Non-executive directors:					
Xu Fang	50	—	—	—	50
Wang Junfeng	50	—	—	—	50
Independent non-executive directors:					
Leung Ping Shing	97	—	—	—	97
Wang Zefeng	50	—	—	—	50
Xu Ye	50	—	—	—	50
	497	335	3	1,175	2,010

Note:

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

ii. Mr Wang Dongxing is also the Chief Executive Officer of the Company and his emoluments disclosed above also include those for services rendered by him as the Chief Executive Officer.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, included 2 directors (2011: 1 director), details of their emoluments are set out above. The emoluments of the remaining 3 (2011: 4) individuals during the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other allowances	**1,515**	1,958
Retirement benefits schemes contributions	**18**	13
Equity-settled share-based payment	**219**	444
	1,752	2,415

The above employees' emoluments were within the following band:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	**3**	4

During both years, 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 current year.

12. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax		
PRC enterprise income tax	**13,458**	27,427
Deferred tax (credit) charge (Note 20)	**3,471**	(239)
	16,929	27,188

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

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

12. INCOME TAX EXPENSE (continued)

Pursuant to the approval of the Jiangsu State Tax Bureau, 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), which became a foreign investment enterprise in 2006, was exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in next three years. Kunshan Sunshine commenced its first profit-making year in 2008 and accordingly, the applicable income tax rate for the year ended 31 December 2012 was 12.5% (2011: 12.5%).

In 2010, Century Sunshine was recognised as Advanced Technology Enterprise which was approved by Science Technology Bureau, Finance Bureau and State Administration of Taxation in Shandong province. Pursuant to the relevant laws and regulations in the PRC, Century Sunshine was entitled to enterprise income tax rate of 15% for three years from 2010 to 2012.

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

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

	2012	2011
	RMB'000	RMB'000
Profit before tax	**71,495**	115,697
Tax at the applicable income tax rate of 25% (2011: 25%)	**17,874**	28,924
Tax effect of income not taxable	**—**	(42)
Tax effect of expenses not deductible	**1,628**	3,034
Effect of tax concession granted to certain subsidiaries	**(5,138)**	(5,463)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries (Note (a))	**811**	1,129
Utilisation of tax losses previously not recognised	**(64)**	(458)
Unrecognised tax loss	**1,818**	64
Tax charge for the year	**16,929**	27,188

Notes:

(a) 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 charge for the current year are set out in Note 20.

13. OTHER COMPREHENSIVE INCOME

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

Tax effect relating to other comprehensive income

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

14. DIVIDENDS

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

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

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

15. EARNINGS PER SHARE

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

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

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

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

The computation of diluted earnings per share does not assume the exercise of certain share options as the exercise price (after adjusted for effect of unvested share-based payment) is higher than the average market price for share for 2011.

16. 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 2011	477,237	1,321,215	1,792,477	3,590,929
Additions	33,458	81,527	134,229	249,214
Transfers	234,590	1,483,357	(1,717,947)	—
Disposals	—	(25,788)	—	(25,788)
At 31 December 2011	745,285	2,860,311	208,759	3,814,355
Additions	74,281	28,404	292,170	394,855
Transfers	81,007	215,192	(296,199)	—
Transferred to investment properties	(22,851)	—	(88,021)	(110,872)
Reclassified as held for sale	—	(99,470)	(58,080)	(157,550)
Reclassified as held for establishment of jointly controlled entity (Note)	(61,290)	—	—	(61,290)
Disposals	(1,631)	(9,177)	—	(10,808)
At 31 December 2012	**814,801**	**2,995,260**	**58,629**	**3,868,690**
DEPRECIATION				
At 1 January 2011	48,393	223,573	—	271,966
Provided for the year	19,037	150,380	—	169,417
Eliminated on disposals	—	(14,055)	—	(14,055)
At 31 December 2011	67,430	359,898	—	427,328
Provided for the year	25,026	167,447	—	192,473
Transferred to investment properties	(381)	—	—	(381)
Eliminated on disposals	(427)	(3,022)	—	(3,449)
At 31 December 2012	**91,648**	**524,323**	**—**	**615,971**
CARRYING AMOUNT				
At 31 December 2012	**723,153**	**2,470,937**	**58,629**	**3,252,719**
At 31 December 2011	677,855	2,500,413	208,759	3,387,027

Note:

Buildings with carrying amount of RMB61,290,000 will be transferred to the JV company as part of the Group's capital contribution when the JV company is established (Note 29).

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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 values, at the following rates per annum:

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

The net book value of property, plant and equipment includes an amount of RMB462,762,000 (31 December 2011: RMB305,783,500) in respect of assets held under finance leases.

Details of property, plant and equipment pledged are set out in Note 44.

17. INVESTMENT PROPERTIES

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

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

17. INVESTMENT PROPERTIES (continued)

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

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

18. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**188,798**	169,787
Current assets	**3,853**	3,465
	192,651	173,252

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

During the year ended 31 December 2012, prepaid lease payments of the land use right of approximately of RMB15,169,000 were transferred to investment properties.

As at 31 December 2012, prepaid lease payments of the land use right with carrying amount of RMB42,240,000 will be transferred to the JV company as part of the Group's capital contribution when the JV company is established (Note 29).

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 RMB50,700,000 (2011: RMB62,683,000). In the opinion of the directors of the Company, the Group will not 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 44.

19. GOODWILL

	2012 RMB'000	2011 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 2012 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 CGU 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 14.05% (2011: 16%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 6% (2011: 6%). 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.

20. 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	Change in fair value of derivative financial instruments	Change in fair value of leasehold/ investment properties	Undistributed profits of PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	949	45	4,925	801	(5,570)	336	–	(3,068)	(1,582)
Credited (charged) to profit or loss	1,362	(32)	(10)	(43)	220	(129)	–	(1,129)	239
At 31 December 2011	2,311	13	4,915	758	(5,350)	207	–	(4,197)	(1,343)
Credited (charged) to profit or loss	1,716	–	(300)	823	220	(168)	(4,951)	(811)	(3,471)
Charged to other comprehensive income	–	–	–	–	–	–	(4,761)	–	(4,761)
At 31 December 2012	**4,027**	**13**	**4,615**	**1,581**	**(5,130)**	**39**	**(9,712)**	**(5,008)**	**(9,575)**

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

	2012	2011
	RMB'000	RMB'000
Deferred tax assets	**10,612**	8,540
Deferred tax liabilities	**(20,187)**	(9,883)
	(9,575)	(1,343)

At the end of the reporting period, the Group has unused tax losses of RMB17,815,000 (31 December 2011: RMB3,288,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB10,542,000 (31 December 2011: RMB3,032,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB7,273,000 (31 December 2011: RMB256,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB7,273,000 (31 December 2011: RMB256,000) that will expire in 2017.

21. DEPOSITS

	2012	2011
	RMB'000	RMB'000
Deposit for acquisition of prepaid lease payment	**78,565**	—
Guarantee deposits for finance lease	**43,620**	—
Deposit for acquisition of property, plant and equipment	**—**	50,000
	122,185	50,000

22. INVENTORIES

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

Details of inventories pledged are set out in Note 44.

23. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
Trade receivables due from:		
— Third parties	**382,757**	359,038
— Related parties (Note 47(b))	**9,699**	3,288
	392,456	362,326

Included in the balance of trade receivables above, approximately RMB348,000,000 at 31 December 2012 (2011: RMB172,384,000) was pledged to banks to secure banking facilities granted to the Group (see Note 44).

The Group normally allows a credit period of 30 to 45 days to its trade customers with trading history, otherwise sales on cash terms are required. The Group's sales to related parties are entered into on the same credit terms of sales to other customers.

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

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

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

23. TRADE RECEIVABLES (continued)

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB55,561,000 (2011: RMB32,799,000) 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:

	2012	2011
	RMB'000	RMB'000
31–90 days	**15,979**	14,163
91–365 days	**34,867**	16,961
Over 1 year	**4,715**	1,675
	55,561	32,799

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 the end of each reporting period is of good quality.

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

	RMB'000
At 1 January 2011	320
Reversed during the year	(242)
At 31 December 2011 and 31 December 2012	78

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

24. LOAN RECEIVABLE

	2012 RMB'000	2011 RMB'000
Loan receivable	**50,000**	—

The Group granted an unsecured short-term loan to the Guarantor (as defined in Note 37) at the floating rate by reference to the borrowing rates announced by the People's Bank of China and the effective interest rate is 7.87% per annum. The amount was subsequently settled on 3 March 2013.

25. BILLS RECEIVABLE

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

During the year, the Group has discounted bills receivable of RMB255,199,000 (2011: RMB226, 442,000) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as discounted bill financing (see Notes 26, 36 and 44).

As at 31 December 2011, bills receivable (excluding discounted bills receivable above) of RMB157,495,000 was also pledged to banks to secure banking facilities granted to the Group. No bills receivable (other than discounted bills receivable above) was pledged to banks as at 31 December 2012 (see Note 44).

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

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

26. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks by discounting those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the transfer as a secured borrowing in the consolidated statement of financial position accordingly. These financial assets and liabilities are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2012

	Bills receivable discounted to banks with full recourse RMB'000	**Total RMB'000**
Carrying amount of transferred assets	**255,199**	**255,199**
Carrying amount of associated liabilities	**(255,199)**	**(255,199)**
Net position	**–**	**–**

As at 31 December 2011

	Bills receivable discounted to banks with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	226,442	226,442
Carrying amount of associated liabilities	(226,442)	(226,442)
Net position	–	–

In addition, bills receivable issued among subsidiaries of the Group for intra-group transactions amounting to RMB1,615,500,000 (2011: RMB962,100,000) have been discounted with full recourse to secure bank borrowings amounting to RMB1,615,500,000 (2011: RMB962,100,000) and these bills receivable have been eliminated in the consolidated financial statements (see Note 36).

27. PREPAYMENTS AND OTHER RECEIVABLES

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

	2012 RMB'000	2011 RMB'000
Prepayments to suppliers	**116,036**	145,624
Other receivables	**207,567**	239,013
	323,603	384,637

An analysis of other receivables is as follows:

	2012 RMB'000	2011 RMB'000
Value-added tax refund	**3,537**	—
Value-added tax recoverable	**191,968**	213,869
Deposits	**790**	13,929
Advance to employees	**2,447**	6,561
Interest receivable	**560**	510
Others	**8,265**	4,144
	207,567	239,013

28. 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 0.35% to 3.05% (2011: from 0.5% to 3.5%) 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 0.35% per annum as at 31 December 2012 (2011: 0.50% per annum).

Bank balances and cash at 31 December 2012 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.

29. ASSETS CLASSIFIED AS HELD FOR SALE

On 3 July 2012, Century Sunshine has entered into a joint venture agreement (the "JV Agreement") with two independent third parties for the formation of a joint venture company (the "JV Company"). Pursuant to the JV Agreement, upon establishment, the JV Company will be owned as to 51% by Century Sunshine, 29% and 20% by the other two parties respectively. The JV Company is jointly controlled by the Group and the other significant shareholders by virtue of contractual arrangements among shareholders. Therefore, the JV Company is classified as a jointly controlled entity of the Group. The registered capital of RMB203 million of the JV Company will be contributed by Century Sunshine and the two parties based on their respective interests in the JV Company by either cash or physical assets. According to the JV Agreement, Century Sunshine will contribute its portion by way of physical assets of RMB103,530,000, that is, the land use rights amounted to RMB42,240,000 and buildings amounted to RMB61,290,000 which were acquired by it through the open auction on 8 December 2011. As stated in the JV Agreement, production facilities and equipment amounted to RMB99,470,000 acquired from the same open auction will be sold by Century Sunshine to the JV Company. In addition, additional equipment amounted to RMB58,080,000 was acquired by Century Sunshine on behalf of the JV Company and was still being assembled and tested as at 31 December 2012. Such equipment will also be sold to the JV Company when it has been established. Accordingly, those assets which are expected to be sold to the JV Company have been classified as assets held for sale and are presented separately in the consolidated statement of financial position.

The major classes of assets classified as held for sale are as follows:

	2012 **RMB'000**
Property, plant and equipment	**157,550**

30. TRADE PAYABLES

An analysis of trade payables is as follows:

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

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

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

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

31. BILLS PAYABLE

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

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

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

32. OTHER PAYABLES

An analysis of other payables is as follows:

	2012 RMB'000	2011 RMB'000
Other payables due to:		
— Third parties	**111,331**	158,011
— Related parties (Note 47(b))	**—**	22,000
	111,331	180,011

	2012 RMB'000	2011 RMB'000
Other payables	**26,403**	74,315
Advance from customers	**53,254**	73,355
Accrued payroll and welfare	**—**	607
Other tax payable	**27,048**	29,369
Interest payable	**4,626**	2,365
	111,331	180,011

33. OBLIGATIONS UNDER FINANCE LEASE

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

In addition, during the year ended 31 December 2012, the Group has entered into one sale and leaseback transaction with an independent third party by way of sale and leasing back of certain machineries with sale proceeds of RMB141,880,000 (2011: RMB50,000,000). In accordance with the lease agreement, the term of the lease is 5 years and the Group has the option to purchase the assets at a nominal consideration at the end of the lease term. Such transaction is considered as sale and leaseback arrangement resulting in a finance lease.

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

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

	Minimum lease payments		**Present value of minimum lease payments**	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Amounts payable under finance leases				
Within one year	**113,749**	67,674	**95,372**	53,624
In more than one year but not more than two years	**113,749**	67,674	**102,680**	57,488
In more than two years but not more than five years	**97,182**	121,192	**92,671**	113,168
	324,680	256,540	**290,723**	224,280
Less: future finance charges	**(33,957)**	(32,260)	**N/A**	N/A
Present value of lease obligations	**290,723**	224,280	**290,723**	224,280
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(95,372)**	(53,624)
Amount due for settlement after 12 months			**195,351**	170,656

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

34. 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 rights.

	Connection fee RMB'000	Value-added tax refund RMB'000	Government grant related to land use rights RMB'000	Total RMB'000
At 1 January 2011	3,930	23,112	2,526	29,568
Additions	—	—	1,793	1,793
Released to income	(381)	(1,512)	(102)	(1,995)
At 31 December 2011	3,549	21,600	4,217	29,366
Additions	—	—	300	300
Released to income	(489)	(1,512)	(102)	(2,103)
At 31 December 2012	**3,060**	**20,088**	**4,415**	**27,563**

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

	2012 RMB'000	2011 RMB'000
Current portion	**2,103**	1,995
Non-current portion	**25,460**	27,371
	27,563	29,366

35. DERIVATIVE FINANCIAL INSTRUMENTS

	2012 RMB'000	2011 RMB'000
Liabilities		
Foreign currency forward contracts (note i)	**259**	231
Interest rate swaps (note ii)	**—**	1,149
	259	1,380

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes:

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

At 31 December 2012, the US$ loans of RMB9,074,000 (31 December 2011: RMB24,124,000) and fixed deposits denominated in Renminbi of RMB9,560,000 (31 December 2011: RMB25,990,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the year ended 31 December 2012, interest income on the fixed deposits of RMB136,000 (31 December 2011: RMB477,000), exchange loss on US$ loans of RMB153,000 (31 December 2011: exchange gain of RMB742,000) are included in profit or loss, while the interest expenses on US$ loans of RMB71,000 (31 December 2011: RMB588,000) are included in finance cost as disclosed in Note 9.

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
2012		
US$1,443,638.39	From July 2012 to July 2013	Buy US$/sell RMB at 6.3918 to 6.4753
2011		
US$3,828,690.79	From January 2012 to September 2012	Buy US$/sell RMB at 6.3050 to 6.5330

At 31 December 2012, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB259,000 (31 December 2011: RMB231,000). 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 determined with reference to prices quoted by financial institution at the end of the reporting period. The gain on change in fair value of the foreign currency forward contracts amounting to RMB106,000 (year ended 31 December 2011: gain on change in fair value of RMB56,000) has been recognised in the profit or loss for the year.

The US$ loans is fixed interest rate at 3.25% (2011: from 3.06% to 4.72%) per annum as at 31 December 2012.

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(ii) The Group entered into the following interest rate swap contract 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 were as follows:

31/12/2011

Notional amount	Maturity	Swaps
US$13,500,000	15 June 2014	From London InterBank Offered Rate ("LIBOR") to fixed rate of 2.5%

The interest rate swap contract with the notional amount of US$13,500,000 was early terminated and a gain of approximately RMB324,000 (2011: gain on change in fair value amounting to RMB635,000) was recognised in profit or loss during the year ended 31 December 2012.

36. DISCOUNTED BILL FINANCING

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

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

37. BANK BORROWINGS

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

Fixed-rate borrowings are charged at the rates ranging from 2% to 9% per annum as at 31 December 2012 (2011: 2% to 10% per annum).

Interests on RMB borrowings at floating rates are charged by reference to the borrowing rates announced by the People's Bank of China, interests on US$ borrowings at floating rates are charged at 3.1% to 3.5% over LIBOR (2011: 3.1% to 3.5% over LIBOR) and interests on HK$ borrowings at floating rates are charged at 4.5% over Hong Kong Interbank Offer Rate ("HIBOR") (2011: Nil).

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

37. BANK BORROWINGS (continued)

Included in the new loans obtained during the year ended 31 December 2012, a loan of RMB200,000,000 was borrowed from a trust company for one year at an effective interest rate of 7.87% per annum. The loan was guaranteed by an independent third party (the "Guarantor"). The Group, simultaneously, granted a short-term loan of RMB50,000,000 to the Guarantor (see note 24).

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 44.

38. OTHER BORROWINGS

	2012 RMB'000	2011 RMB'000
Borrowings from		
Weifang City Investment Co., Ltd. (濰坊市投資有限公司) ("Weifang Investment")	**14,000**	14,000

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

The effective weighted average annual rate for the year ended 31 December 2012 was 6.46% per annum (2011: 6.56% per annum).

39. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,000,000,000	100,000

	Number of shares	Share capital	
		HK$'000	Shown in the consolidated financial statements RMB'000
Issued and fully paid:			
At 1 January 2011, 31 December 2011 and 31 December 2012	802,588,000	80,258	72,351

40. 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 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, debit reserve of acquisition of additional interest in subsidiaries from owners of the Company, and reserve arising from acquisition of additional interest in subsidiaries from non-controlling shareholders of subsidiaries.

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

Included in the balance of assets revaluation reserve at 31 December 2012, amount of RMB4,196,000 is the fair value adjustment in respect of the interests previously held by the Group, arising on acquisition of 昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd) ("Shengshi Thermoelectricity"). The remaining amount of RMB15,612,000 is the fair value adjustment resulted from the revaluation of leasehold properties at the time transferred to investment properties during the current year.

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.

41. SHARE-BASED PAYMENT TRANSACTION

Pursuant to a resolution in writing passed on 19 November 2007 by all shareholders of the Company, a share option scheme ("Share Option Scheme") has been adopted by the Company which would be applicable to grant of share options after the Company's listing on the Main Board of the Stock Exchange on 12 December 2007.

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 price 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 (HK$1.505 after Bonus issue) 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 (before Bonus Issue)	Maximum number of options exercisable (after Bonus Issue)	Life of options
8 April 2010	8 April 2010 to 30 June 2010	1 July 2010 to 31 December 2011	400,000	800,000	1.73 years
8 April 2010	8 April 2010 to 30 June 2011	1 July 2011 to 31 December 2012	400,000	800,000	2.73 years
8 April 2010	8 April 2010 to 30 June 2012	1 July 2012 to 31 December 2013	400,000	800,000	3.73 years
8 April 2010	8 April 2010 to 30 June 2013	1 July 2013 to 31 December 2014	400,000	800,000	4.73 years

41. SHARE-BASED PAYMENT TRANSACTION (continued)

Share Option Scheme (continued)

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

	Exercise price	Number of options
	HK$ per shares	
At 1 January 2011	1.505	2,700,000
Expired during the year		(300,000)
At 31 December 2011	1.505	2,400,000
Expired during the year		(800,000)
At 31 December 2012	1.505	1,600,000
Exercisable at 31 December 2012	1.505	800,000

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).

The Group recognised an expense of RMB219,000 for the year ended 31 December 2012 (2011: RMB444,000) in relation to share options granted by the Company.

42. 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 obligations under finance leases, discounted bill financing, bank borrowings and other borrowings disclosed in Notes 33, 36, 37 and 38 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.

43. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables	**2,451,001**	2,340,956
Financial liabilities		
Liabilities at amortised cost	**5,484,774**	5,095,427
Obligation under finance lease	**290,723**	224,280
Derivative financial instruments	**259**	1,380

(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$, HK$ and EURO, which expose the Group to foreign currency risk. The Group has entered into foreign currency forward contracts to hedge against the foreign currency risk arising from the Group's certain US$ borrowings. The management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

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 37, at the end of the reporting period are as follows:

	2012 RMB'000	2011 RMB'000
Assets		
US$		
Bank balances and cash	**40,944**	27,258
Trade receivables	**634**	3,077
HK$		
Bank balances and cash	**2,652**	5,367
Other receivables	**279**	—
EURO		
Bank balances and cash	**728**	2,378
Trade receivables	**—**	124

43. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

	2012 RMB'000	2011 RMB'000
Liabilities		
US$		
Trade payables	75,149	88,611
Bank borrowings	203,862	267,676
Other payables	—	65
HK$		
Bank borrowings	145,944	—
EURO		
Trade payables	—	272

As disclosed in Note 35, 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$, HK$, 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 post-tax 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$		Impact of HK$		Impact of EURO	
	2012 RMB'000 (a)	2011 RMB'000 (a)	2012 RMB'000 (b)	2011 RMB'000 (b)	2012 RMB'000 (c)	2011 RMB'000 (c)
Increase (decrease) in post-tax profit for the year	8,904	16,301	5,363	(268)	(27)	(112)

43. 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$ at the end of the reporting period.

b. This is mainly attributable to the exposure outstanding on receivables, bank balances and cash and bank borrowings denominated in HK$ at the end of the reporting period.

c. This is mainly attributable to the exposure outstanding on bank balances and cash and trade payables denominated in EURO 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 Notes 36 and 37 for details of these discounted bill financing and borrowings). The Group has entered into interest rate swap contract to hedge against the fair value interest rate risk in previous years. The interest swap contract has been early terminated in the current year and the Group has not entered into other interest rate swap contract. The management monitors interest rate exposure and 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 37 and 38 for details of these borrowings), finance lease obligations (see Note 33), restricted bank deposits and bank balances and cash (see Note 28) and loan receivable (see note 24).

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

Sensitivity analysis

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 and other borrowings and obligation under finance leases, restricted bank deposits, bank balances and loan receivable, the analysis is prepared assuming the amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 14 basis points (2011: 14 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 14 basis points (2011: 14 basis points) and all other variables were held constant, the Group's post-tax profit would decrease (increase) by approximately RMB443,000 for the year ended 31 December 2012 (2011: RMB1,741,000).

43. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, loan receivable, bank balances and restricted bank 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.

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 responsibility for liquidity risk management rests with the management, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate liquid cash and banking and loan facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities from time to time.

As at 31 December 2012, the Group had net current liabilities of approximately RMB1,470,972,000. In consideration of the short-term fund requirement, the management has carried out a detailed and careful review of the cash flow projection and cash requirement of the Group for the next twelve months from the date of issuance of these consolidated financial statements. The management considers using bank facilities and borrowings as a significant source of liquidity of the Group. As at 31 December 2012, the Group had available unutilised short-term bank loan facilities of approximately RMB1,985,828,000 (2011: RMB1,191,283,000). In addition, the Group has been accepted to register its short-term financing notes with principal amount of RMB600 million for the validity period of 2 years (see Note 50(ii)), in which notes with principal amount of RMB300 million has been issued in January 2013 to provide further funds for the Group's operations. Taking into account the present available banking facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks), short-term financing notes and internal financial resources of the Group, the Group has adequate liquid funds to finance the working capital and capital expenditure requirements of the Group in next twelve months.

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.

43. 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 flows on derivative instruments that settle on a net basis. 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 2012									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.71	–	692,744	589,853	216,500	–	–	1,499,097	1,423,994
Variable-rate bank borrowings	6.84	–	794,013	399,633	344,233	137,626	–	1,675,505	1,588,414
Other borrowings	6.46	–	452	14,452	–	–	–	14,904	14,000
Bills payables		–	90,000	–	–	–	–	90,000	90,000
Trade payables		71,067	337,535	–	–	–	–	408,602	408,602
Other payables		31,029	–	–	–	–	–	31,029	31,029
Payable for construction work		31,362	26,674	–	–	–	–	58,036	58,036
Discounted bill financing		–	1,870,699	–	–	–	–	1,870,699	1,870,699
Obligations under finance leases	7.48	–	56,874	56,875	113,749	97,182	–	324,680	290,723
		133,458	3,868,991	1,060,813	674,482	234,808	–	5,972,552	5,775,497
Derivatives – net settlement									
Foreign exchange forward contracts		–	–	259	–	–	–	259	259
		–	–	259	–	–	–	259	259
At 31 December 2011									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.05	–	473,645	238,308	1,188	20,297	–	733,438	712,612
Variable-rate bank borrowings	6.47	–	737,929	755,875	259,778	650,547	–	2,404,129	2,188,964
Other borrowings	6.56	–	459	14,459	–	–	–	14,918	14,000
Bills payables		–	206,500	–	–	–	–	206,500	206,500
Trade payables		199,003	352,359	–	–	–	–	551,362	551,362
Other payables		77,287	–	–	–	–	–	77,287	77,287
Payable for construction work		156,160	–	–	–	–	–	156,160	156,160
Discounted bill financing		–	1,188,542	–	–	–	–	1,188,542	1,188,542
Obligations under finance leases	7.02	–	33,837	33,837	67,674	121,192	–	256,540	224,280
		432,450	2,993,271	1,042,479	328,640	792,036	–	5,588,876	5,319,707
Derivatives – net settlement									
Interest rate swaps		–	–	–	–	1,149	–	1,149	1,149
Foreign exchange forward contracts		–	–	231	–	–	–	231	231
		–	–	231	–	1,149	–	1,380	1,380

43. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

Note: The contractual payments in respect of variable-rate bank borrowings, other borrowings and obligations under finance leases 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 RMB255,199,000 (2011: RMB226,442,000) 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.

Foreign currency forward contracts held at 31 December 2012 and 2011 are measured using level 2 fair value measurements which are based on quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Interest rate swaps held at 31 December 2011 are measured using level 2 fair value measurements which are the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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.

44. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities (including bank borrowings, discounted bill financing and issuance of bills payable) 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:

	2012	2011
	RMB'000	RMB'000
Buildings	**123,245**	165,277
Plant, machinery and equipment	**933,831**	633,138
Prepaid lease payments	**102,671**	119,438
Inventories	**—**	178,055
Trade receivables	**348,000**	172,384
Bills receivable	**255,199**	383,937
Restricted bank deposits	**1,162,368**	935,471
	2,925,314	2,587,700

45. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**142,064**	200,960

46. OPERATING LEASES

The Group as lessee

	2012 RMB'000	2011 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	**2,274**	426

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:

	2012 RMB'000	2011 RMB'000
Within one year	**374**	115
In the second to fifth year inclusive	**578**	218
	952	333

The Group as lessor

Property rental income earned during the year was RMB5,555,000 (2011: RMB1,277,000). All of the properties held have committed tenants for the next 1 to 8 years.

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

	2012 RMB'000	2011 RMB'000
Within one year	**5,291**	1,505
In the second to fifth year inclusive	**18,718**	1,406
After five years	**11,845**	—
	35,854	2,911

47. RELATED PARTY TRANSACTIONS

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

	2012 RMB'000	2011 RMB'000
Sales of goods to a non-controlling shareholder of a subsidiary	**121,486**	102,497

(b) Balances with related parties

	2012 RMB'000	2011 RMB'000
Trade receivable from a non-controlling shareholder of a subsidiary	**9,699**	3,288
Other payables		
— A non-controlling shareholder of a subsidiary	**–**	2,000
— A company controlled by a director of the Company	**–**	20,000

(c) Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short term employee benefit	**4,719**	5,270
Retirement benefit scheme contributions	**22**	19
Equity-settled share-based payment	**219**	444
	4,960	5,733

48. 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.

48. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS (continued)

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.

49. 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 2012	2011	Principal activity
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	US$1	**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	HK$1	**100.00%**	100.00%	Investment holding
Hong Kong Hao Mai Trading Co., Ltd. 香港豪邁貿易有限公司	Private limited company	Hong Kong	HK$1,000	**100.00%**	100.00%	Trading
Century Sunshine Paper (USA) Inc. (世紀陽光紙業美國公司) (Note iv)	Private limited company	United States of America	Nil	**100.00%**	100.00%	Trading
山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) (Note i)	Sino-foreign equity joint venture	PRC	US$111,732,800	**99.90%**	99.90%	Manufacture of paper products
昌樂新邁紙業有限公司 (Changle Numat Paper Industry Co., Ltd.) (Note i)	Private limited company	PRC	RMB500,000,000	**100.00%**	100.00%	Manufacture of paper products
山東陽光概念包裝有限公司 (Shandong Sunshine Concept Packaging Co., Ltd.) (Note i) (Note ii)	Private limited company	PRC	RMB5,400,000	**100.00%**	100.00%	Manufacture of paper products
昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) (Note i)	Sino-foreign equity joint venture	PRC	US$2,495,000	**100.00%**	100.00%	Manufacture of paper products
昌樂昌東廢紙收購有限責任公司 (Changle Changdong Waste Paper Recovery Co., Ltd.) (Note i)	Private limited company	PRC	RMB46,500,000	**100.00%**	95.54%	Waste paper trading
青島東森再生紙有限公司 (Qingdao Dongsen Recycle Paper Co., Ltd.) (Note i)	Private limited company	PRC	RMB1,000,000	**100.00%**	100.00%	Waste paper trading

49. 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 2012	2011	Principal activity
Indirectly held (continued)						
濰坊申易物流有限公司 (Weifang Shenyi Logistic Co.,Ltd.) (Note i)	Private limited company	PRC	RMB23,320,000	100.00%	100.00%	Provision for transportation services
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.) (Note i)	Private limited company	PRC	RMB219,250,000	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%	100.00%	Manufacture of paper products
濰坊碧水再生資源有限公司 (Weifang Bishui Waste Recovery Co., Ltd.) (Note i) (Note iii)	Private limited company	PRC	RMB20,000,000	100.00%	N/A	Waste materials trading

Notes:

(i) The English names of these companies are for reference only and have not been registered.

(ii) Originally known as 昌樂彩虹包裝製品有限公司 (Changle Rainbow Packaging Products Co., Ltd)

(iii) Newly established during the year ended 31 December 2012.

(iv) This company was incorporated in California, United States of America with an authorised number of shares of 1,000,000 on 26 March 2010.

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

50. EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) As detailed in Note 29, the JV company has been established on 11 March 2013 in which the Group holds 51% of its equity interest.

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

51. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**2**	3
Investments in subsidiaries	**462,824**	462,824
Amount due from subsidiaries	**611,646**	607,897
	1,074,472	1,070,724
CURRENT ASSETS		
Prepayments and other receivables	**279**	198
Amount due from subsidiaries	**9,173**	2,981
Bank balances and cash	**2,880**	5,378
	12,332	8,557
CURRENT LIABILITIES		
Amounts due to subsidiaries	**22,564**	4,252
	22,564	4,252
NET CURRENT (LIABILITIES) / ASSETS	**(10,232)**	4,305
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,064,240**	1,075,029
CAPITAL AND RESERVES		
Share capital	**72,351**	72,351
Reserves	**991,889**	1,002,678
TOTAL EQUITY	**1,064,240**	1,075,029

51. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Movement in reserves

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2011	72,351	745,940	283,277	555	3,629	1,105,751
Profit and total comprehensive income for the year	—	—	—	—	2,237	2,237
Dividend declared	—	(33,404)	—	—	—	(33,404)
Recognition of equity-settled share-based payments (note 41)	—	—	—	444	—	444
At 31 December 2011	72,351	712,536	283,277	999	5,866	1,075,029
Profit and total comprehensive income for the year	—	—	—	—	5,846	5,846
Dividend declared	—	(16,854)	—	—	—	(16,854)
Recognition of equity-settled share-based payments (note 41)	—	—	—	219	—	219
Transfer upon expiry of share options	—	—	—	(856)	856	—
At 31 December 2012	72,351	695,682	283,277	362	12,568	1,064,240

FINANCIAL SUMMARY

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Results					
Revenue	**3,704,180**	3,721,189	2,456,540	1,697,678	1,764,552
Profit before taxation	**71,495**	115,697	202,768	58,289	64,717
Taxation	**(16,929)**	(27,188)	(28,446)	(10,826)	1,471
Minority interests	**(10,583)**	(6,107)	(4,708)	(5,316)	(1,832)
Profit attributable to shareholders	**43,983**	82,402	169,614	42,147	64,356
Assets					
Non-current assets	**3,938,264**	3,634,046	3,516,555	2,016,307	1,619,887
Current assets	**3,539,284**	3,344,158	2,898,617	1,851,289	1,243,680
Total assets	**7,477,548**	6,978,204	6,415,172	3,867,596	2,863,567
Liabilities					
Non-current liabilities	**897,467**	1,031,030	1,269,745	645,909	193,742
Current liabilities	**5,010,256**	4,432,813	3,700,682	1,951,650	1,434,356
Total liabilities	**5,907,723**	5,463,843	4,970,427	2,597,559	1,628,098
Equity and reserves					
Total equity	**1,569,825**	1,514,361	1,444,745	1,270,037	1,235,469
Minority interests	**85,323**	(73,155)	(53,987)	(41,876)	(31,205)
Equity attributable to owners of the Company	**1,484,502**	1,441,206	1,390,758	1,228,161	1,204,264