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 2013

*For identification purposes only

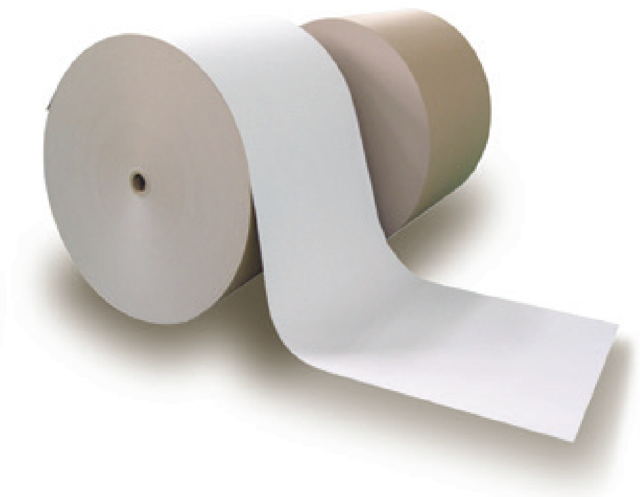
CONTENTS

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)*
Mr. Zhang Zengguo *(Deputy General Manager)*

Non-Executive Directors

Mr. Wang Junfeng
Mr. Zhang Licong (Appointed on 16 July 2013)
Mr. Xu Fang (Resigned on 16 July 2013)

Independent Non-Executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Ms. Jiao Jie (Appointed on 27 January 2014)
Mr. Xu Ye (Resigned on 27 January 2014)

AUDIT COMMITTEE

Mr. Leung Ping Shing *(Chairman)*
Mr. Wang Zefeng
Ms. Jiao Jie (Appointed on 27 January 2014)
Mr. Xu Ye (Resigned on 27 January 2014)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Ms. Jiao Jie *(Chairlady)* (Appointed on 27 January 2014)
Mr. Wang Dongxing
Mr. Wang Zefeng
Mr. Xu Ye *(Chairman)* (Resigned on 27 January 2014)

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael
(Appointed on 26 September 2013)
Mr. Ng Cheuk Him *CPA, ACS*
(Resigned on 9 August 2013)

AUTHORISED REPRESENTATIVES

Mr. Wang Dongxing
Mr. Chan Yee Ping, Michael
(Appointed on 26 September 2013)
Mr. Ng Cheuk Him *CPA, ACS*
(Resigned on 9 August 2013)

PRINCIPAL PLACE OF BUSINESS IN CHINA

Changle Economic Development Zone
Weifang 262400
Shandong
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1201, 12/F
On Hong Commercial Building
145 Hennessy Road
Wanchai,
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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SCP
山东阳光概念包装有限公司

Chairman's Statement

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 2013.

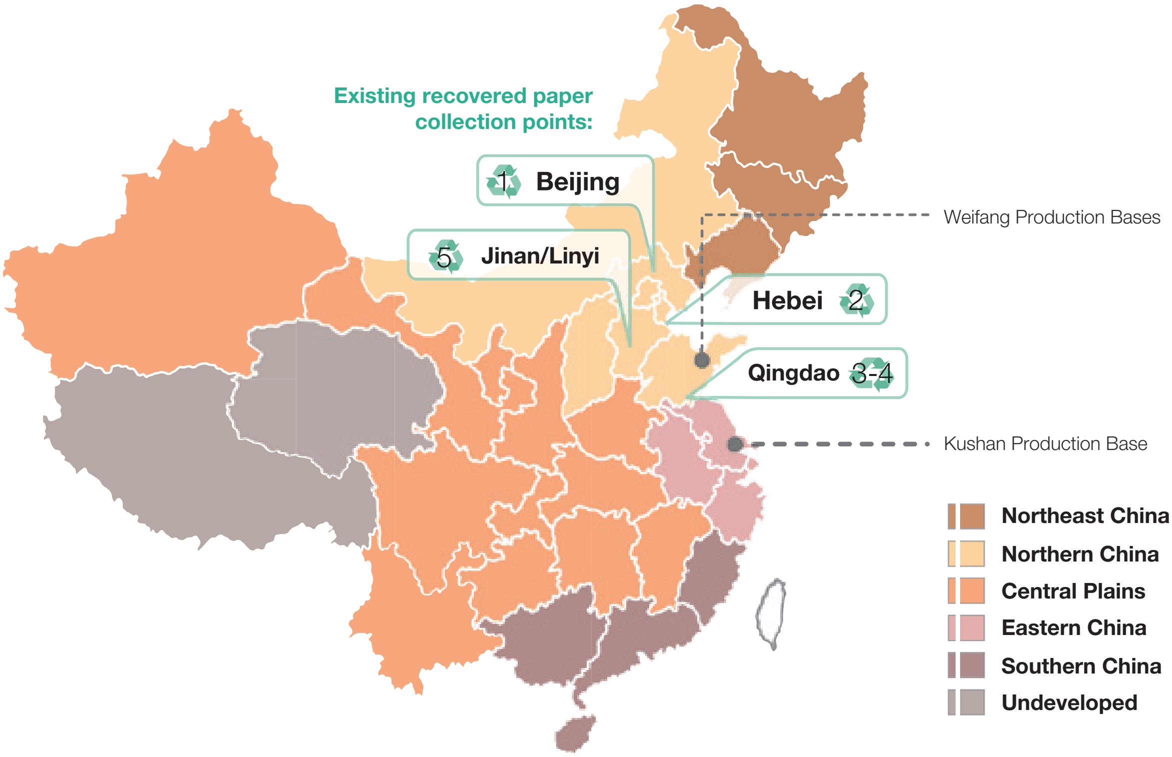
OPERATION REVIEW

Under the backdrop of a slow recovery in the global economy and a depressed market during the financial year ended 31 December 2013 ("FY2013"), our Group implemented strategic measures by active destocking amid the complicated and ever changing operating environment. As a result, our sales volumes increased from approximately 992,000 tons in the financial year ended 31 December 2012 ("FY2012") to approximately 1,065,000 tons in FY2013, representing an increase of approximately 73,000 tons. At the same time, the Company worked to reduce its cost of raw materials by managing its source of procurement, and pursued technological innovation in terms of processing technique alignment. Therefore, our Group was able to maintain gross profit margin at similar level of 16.5% with that in previous year of 16.6%.

Following the completion of maintenance and modification work at its production facilities, the operation of our joint venture company, Sunshine Oji (Shouguang) Speciality Paper Co., Ltd. (陽光王子(壽光)特種紙有限公司), ("JV Company") reached its designed capacity and successfully attained its production target in the fourth quarter of 2013. Its principal product was decorative paper, which was well received by the market, and mainly covered the northern, southwestern, eastern and southern parts of China.

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

Existing recovered paper collection points:



OUTLOOK

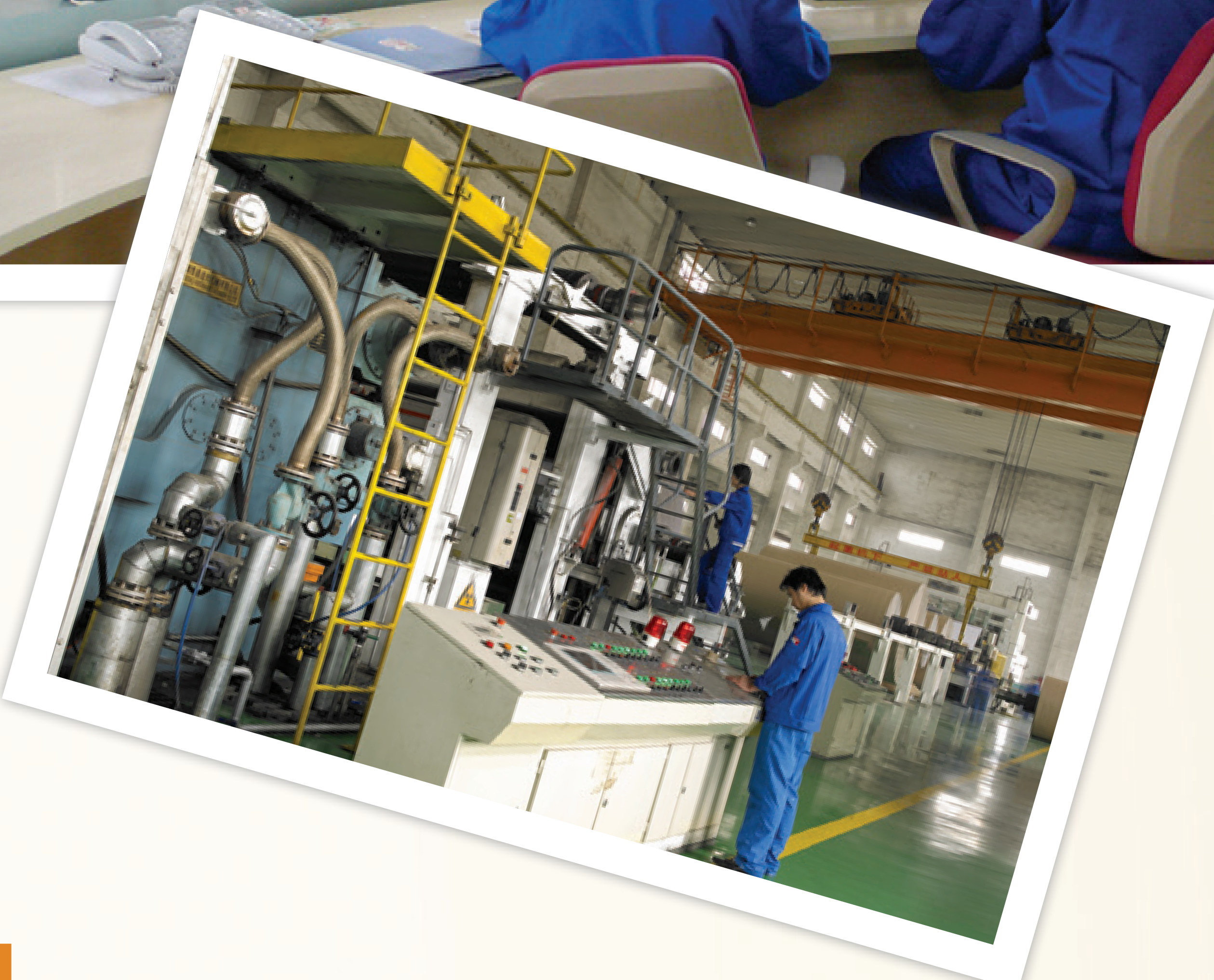
The business environment of China's paper industry remains subject to a number of challenges. However, opportunities do exist as more demanding paper industry-related environmental regulations in China and the continuing process of elimination of inefficient paper mills working in our Group's favour and that our Group continuously improves its competency to grasp these opportunities. To remain competitive, our Group will continue to focus on management enhancement, income stream diversification and cost reduction, and will endeavour in ensuring the existing production lines to continue operating in high efficiency.

Seeing the market demand for specialty paper products, and with the sophisticated production techniques of our JV Company, moreover, our Group intends to further its research and development efforts on premium decorative paper to meet the market demand and boost its profitability, and would, depending on the market conditions of premium decorative paper, consider expansion into the international market. Meanwhile, two pre-printing production lines of our Group would soon commence their productions, which will diversify income stream of our Group.

The successful issue and extension of the short-term financing notes in January 2014 has enabled our Group to gain an effective access to lower-cost funding for its operation. Coupled with normal operation of our production lines, it is expected that the debt position of our Group would continue to improve, with a brighter prospect for the Company's shareholders' return on investment.

Wang Dongxing
Chairman

Hong Kong
28 March 2014



Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL REVENUE

Total revenue of our Group for FY2013 was RMB3,657.7 million, as compared to that of RMB3,704.2 million for FY2012, representing a slight decrease of approximately 1.3%.

Sales of paper products for FY2013 was RMB3,522.8 million (FY2012: RMB3,555.9 million). Due to the imbalance of demand and supply of paper products and the slowdown of the economic growth in China, the average selling price (the "ASP") of our Group's paper products continued to be under pressure during FY2013. However, since we have implemented active destocking in the fourth quarter 2013, there was an increase in sales volumes of our paper products, from nearly 1.0 million tons for FY2012 to approximately 1.06 million tons for FY2013.

The following table sets forth our sales by different business segments:

	FY2013 RMB'000	%	FY2012 RMB'000	%
Sales of paper products				
White top linerboard	1,106,745	30.2	1,066,955	28.8
Light-coated linerboard	1,550,987	42.4	1,594,663	43.1
Core board	477,929	13.1	551,756	14.9
Specialized paper products	387,092	10.6	342,575	9.2
Subtotal of sales of paper products	3,522,753	96.3	3,555,949	96.0
Sales of electricity and steam	134,918	3.7	148,231	4.0
	3,657,671	100.0	3,704,180	100.0

COST OF SALES

Our cost of sales slightly decreased by 1.1%, from RMB3,088.9 million for FY2012 to RMB3,054.2 million for FY2013, which was generally in line with the decrease in the total revenue. With respect to the costs of our paper products segment, domestic recovered paper, overseas recovered paper, and kraft pulp accounted for approximately 28.0%, 22.0% and 12.0%, respectively, of our cost of sales. Chemicals and additives consumed accounted for approximately 11.0% of the cost of sales. Manufacturing overhead costs accounted for approximately 25.0% of the cost of sales, of which depreciation, electricity and steam represented majority of manufacturing overhead costs. The remaining 2.0% of cost of sales represented labour cost.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit and gross profit margin recorded a decrease in FY2013, which was mainly reflected by the decrease in ASP of our paper products. Gross profit was RMB603.5 million for FY2013, representing an approximately 1.9% decrease as compared to RMB615.3 million for FY2012. Gross profit margin was 16.5% for FY2013, which was comparable to 16.6% for FY2012.

OTHER PROFIT AND LOSS ITEMS

Other income, and other gains and losses mainly represented interest income of RMB46.0 million (FY2012: RMB27.9 million), rental income of RMB6.8 million (FY2012: RMB4.9 million), government grants of RMB54.7 million (FY2012: RMB70.8 million), net foreign exchange gain of RMB15.5 million arising from the appreciation of Renminbi against foreign currencies debt (FY2012: RMB1.0 million), and gain on disposal of a subsidiary of RMB5.5 million (FY2012: Nil). The sharp increase in interest income mainly reflected the interest income received from our JV Company of RMB17.7 million (FY2012: Nil).

Distribution and selling expenses, primarily consisted of transportation cost and staff costs, recorded an increase from RMB223.2 million for FY2012 to RMB256.2 million for FY2013 representing an increase of approximately 14.8%. The increase in distribution and selling expenses mainly reflected the increase in sales volume of paper products in FY2013. As a percentage of total revenue, it also recorded an increase from 6.0% in FY2012 to 7.0% in FY2013.

Administrative expenses increased from RMB136.0 million for FY2012 to RMB155.1 million for FY2013. The increase in administrative expenses mainly reflected the increase in salaries and related costs for administrative staff. As a percentage of total revenue, it also recorded an increase from 3.7% in FY2012 to 4.2% in FY2013.

The net gain from the change in fair value of investment property of RMB4.7 million represented the revaluation gain arising from two investment properties located in the People's Republic of China (the "PRC").

Share of profit of a joint venture of RMB0.4 million represented the share of profit from the JV Company, a 60% owned entity of our Group.

Finance costs decreased from RMB335.4 million for FY2012 to RMB307.4 million for FY2013, representing a decrease of approximately 8.3%. The decrease mainly reflected the decrease in bills discounted charges as a result of the decrease of interest rate chargeable on the bills discounted in first half year of FY2013.

INCOME TAX EXPENSES

Income tax expenses decreased from RMB16.9 million for FY2012 to RMB11.4 million for FY2013, representing a decrease of approximately 32.5%. The effective tax rate was 29.3% for FY2013, as compared to 23.7% for FY2012. The lower effective tax rate for FY2012 mainly reflect the higher impact from the tax concession granted to our Group in FY2012.

PROFIT FOR THE YEAR

As a result of the factors discussed above, profit for the year attributable to the owners of our Company for FY2013 was RMB22.1 million, representing a decrease of approximately 49.8% as compared to RMB44.0 million for FY2012.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury policy

Our Group continues to control financial risks in a prudent manner. As the functional and reporting currencies of our Group are Renminbi, there are no foreign exchange differences arising from the translation of financial statements. In addition, our Group conducts business transactions principally in Renminbi, the exchange rate risk at our Group's operational level is not significant. Nevertheless, the management continues to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when needed.

Working capital

Internally generated operating cash flow and credit facilities provided by our principal bankers finance most of our working capital requirements. As at 31 December 2013, we had bank balances and cash, and restricted bank deposits, of approximately RMB1,697.2 million, representing an increase of RMB276.4 million as compared with that of RMB1,420.8 million as at 31 December 2012.

Inventories decreased from RMB656.5 million as at 31 December 2012 to RMB285.5 million as at 31 December 2013. Its turnover days also decreased from 76 days for FY2012 to 56 days for FY2013. The decrease in inventory balance and its turnover days reflected our Group's strategy of destocking in the fourth quarter 2013 for the purpose of holding more cash for future development.

Trade receivables decreased from RMB392.5 million as at 31 December 2012 to RMB360.5 million as at 31 December 2013. The turnover days of trade receivables for FY2013 was 38 days, which was generally in line with 30 to 45 days credit period given to our Group's customers and comparable to 37 days for FY2012.

As at 31 December 2013, we recorded net current liabilities of RMB2,369.8 million (as at 31 December 2012: RMB1,471.0 million). The current ratio was 0.58 times and 0.71 times, respectively, as at 31 December 2013 and 2012. During FY2013, our Group has issued short-term financing notes of RMB300 million which improved our liquidity and financial position of our Group. We also possessed sufficient cash resources from operating cash inflow and available banking facilities to meet our Group's working capital requirement.

Cashflow

We recorded net cash inflows from operation of RMB774.0 million for FY2013 (FY2012: RMB464.9 million). The increase in net cash inflows from operation reflected the result of our monitoring in working capital management, including but not limited to the increase in inventory turnover in FY2013 through enhanced inventory management, which released cash and increased cash flow from operations. Net cash used in investing activities decreased from RMB916.4 million for FY2012 to RMB254.1 million for FY2013. The decrease mainly reflected the lower capital expenditure on purchase of property, plant and equipment, and lease payment of land use right for FY2013 as compared to that for FY2012. There was a net cash inflow from financing activities of RMB461.6 million for FY2012. On the contrary, there was a net cash outflow from financing activities of RMB311.4 million for FY2013. This change reflected the decrease in discount bill financing. The combined effect of the above resulted in a net increase of cash and cash equivalents of RMB208.5 million for FY2013 (FY2012: RMB10.1 million).

Gearing

Our net gearing ratio (calculated based on total of borrowings, short-term financing notes and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by the total equity) was 112.8% as at 31 December 2013, representing an improvement as compared to 119.9% as at 31 December 2012.

Capital expenditure

During FY2013, our capital expenditure was approximately RMB317.0 million, which mainly related to the renewal of our plant and machinery, and the construction of ancillary facilities (FY2012: RMB190.0 million).

Capital commitments and contingent liabilities

Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment was approximately RMB81.0 million as at 31 December 2013 (As at 31 December 2012: RMB142.1 million).

As at 31 December 2013, our Group had no material contingent liabilities.

Pledge of assets

As at 31 December 2013, the aggregate carrying amount of our assets pledged was approximately RMB2,650.3 million. (As at 31 December 2012: RMB2,925.3 million).

Employees and remuneration policies

Our Group employed approximately 2,560 full-time employees in the PRC and Hong Kong as at 31 December 2013. The staff costs for FY2013 were approximately RMB137.1 million, representing an increase of RMB1.1 million over FY2012 of approximately RMB136.0 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. 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.

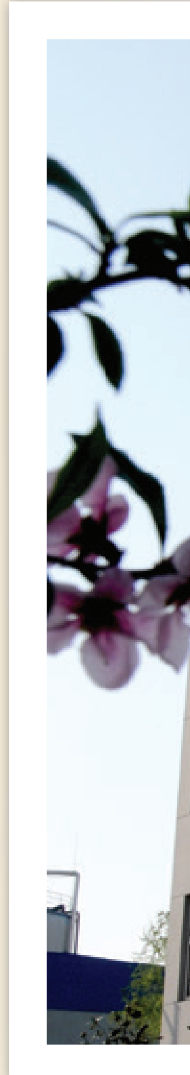
Subsequent Events

i. Subsequent to the FY2013, certain PRC banks agreed to extend our Group's RMB650,000,000 bank borrowings' expiration dates for one year when they fall due in the year 2014.

ii. On 16 January 2014, Century Sunshine issued another RMB300 million one-year term short term financing note and replaced the first tranche of RMB300 million which expired in January 2014.

iii. On 8 February 2014, Century Sunshine has obtained the approval from National Development and Reform Commission (中華人民共和國國家發展和改革委員會) with respect to the proposed issuance of a corporate bond. The proposed principal amount is RMB500 million for a term of seven years and must be issued with 12 months from the date of the approval. The corporate bond, upon issuance, will bear a floating interest rate not higher than 4.1 percentage point over Shanghai Interbank Offered Rate per annum. As at the date of this annual report, the corporate bond has not yet been issued.

Corporate Governance Report




阳光纸业技术中心

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 as set out in Appendix 14 (the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during FY2013 except A.4.2 of the code provisions of the CG Code as Mr. Zhang Licong, a non-executive Director appointed on 16 July 2013 to fill a casual vacancy, has not been retired and re-elected in accordance with such code provisions due to administrative oversight, at the first general meeting after his appointment, being the extraordinary general meeting of the Company held on 1 November 2013. Mr. Zhang will retire and subject to re-election at the upcoming general meeting of the Company to be held on 28 May 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made to all Directors by our Company to confirm that all Directors have complied with the Model Code during FY2013.

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 FY2013 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. The members of the Board are as follows:

Chairman:	Mr. Wang Dongxing
Executive Directors:	Mr. Wang Dongxing
	Mr. Shi Weixin
	Mr. Ci Xiaolei
	Mr. Zhang Zengguo
Non-executive Directors:	Mr. Wang Junfeng
	Mr Zhang Licong (Appointed on 16 July 2013)
	Mr. Xu Fang (Resigned on 16 July 2013)
Independent non-executive Directors:	Mr. Leung Ping Sing
	Mr. Wang Zefeng
	Ms Jiao Jie (Appointed on 27 January 2014)
	Mr. Xu Ye (Resigned on 27 January 2014)

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. Shi Weixin, Mr. Zhang Zengguo and Mr. Leung Ping Sing will retire from office at the forthcoming annual general meeting of our Company to be held on 28 May 2014 and being eligible to and will offer themselves for re-election.

In accordance with the articles of association of our Company, Mr. Zhang Licong and Ms. Jiao Jie shall hold office until the next general meeting of the Company and subject to re-election. An extraordinary general meeting of the Company was held on 1 November 2013. Due to administrative oversight, Mr. Zhang Licong has not been retired and subject to re-election in such meeting. Mr. Zhang Licong and Ms. Jiao Jie will both retire in the forthcoming annual general meeting to be held on 28 May 2014 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/her independence for FY2013 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 FY2013, our Company held a total of four Board meetings, one annual general meeting and one extraordinary general meeting. The attendance records of each member of the Board at Board meetings and general meetings are set out in the following table:

	Board meetings		**General meetings**	
Director	**attendance/held**	**attendance %**	**attendance/held**	**attendance %**
Executive Directors				
Mr. Wang Dongxing	4/4	100	2/2	100
Mr. Shi Weixin	4/4	100	2/2	100
Mr. Ci Xiaolei	4/4	100	2/2	100
Mr. Zhang Zengguo	4/4	100	2/2	100
Non-executive Directors				
Mr. Wang Junfeng	4/4	100	1/2	50
Mr. Zhang Licong(1)	2/2	100	0/1	—
Mr. Xu Fang(2)	2/2	100	0/1	—
Independent Non-executive Directors				
Mr. Leung Ping Shing	4/4	100	1/2	50
Mr. Wang Zefeng	4/4	100	1/2	50
Mr. Xu Ye	4/4	100	1/2	50

Note (1) Mr. Zhang Licong was appointed as a non-executive Director on 16 July 2013. Two Board meetings and one general meeting were held from 16 July 2013 to 31 December 2013.

Note (2) Mr. Xu Fang resigned as a non-executive Director on 16 July 2013. Two Board meetings and one general meeting were held from 1 January 2013 to 15 July 2013.

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 FY2013:

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. Zhang Licong(1)	A, B
Mr. Xu Fang(2)	A, B
Independent 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.

Notes:

(1) Mr. Zhang Licong was appointed as a Non-executive Director on 16 July 2013.

(2) Mr. Xu Fang resigned as a Non-executive Director on 16 July 2013.

NON-EXECUTIVE DIRECTORS TERMS OF APPOINTMENTS

For the terms of appointment of our non-executive Directors and independent non-executive Directors, please refer to the section headed "Directors and Senior Management — Directors — Directors' service contracts" on page 40 of this annual report.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the 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. During FY2013 and up to 26 January 2014, the members of the audit committee were Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye, with Mr. Leung Ping Shing sat as the chairman of the audit committee. Since 27 January 2014, the members of the audit committee are Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie, with Mr. Leung Ping Shing sitting as the chairman of the audit committee. During FY2013, our audit committee held two meetings to review our results for FY2012 and for the six months ended 30 June 2013, and our internal control systems.

REMUNERATION COMMITTEE

Our Board has established a remuneration committee in compliance with the CG Code. 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 FY2013, 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 CG Code. 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. During FY2013 and up to 26 January 2014, the members of the nomination committee were Mr. Wang Dongxing, our executive Director, and Mr. Xu Ye and Mr. Wang Zefeng, our independent non-executive Directors, with Mr. Xu Ye sat as the chairman of the nomination committee. Since 27 January 2014, the members of the nomination committee are Mr. Wang Dongxing, our executive Director, and Ms. Jiao Jie and Mr. Wang Zefeng, our independent non-executive Directors, with Ms. Jiao Jie sitting as the chairlady of the nomination committee. During FY2013, 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 28 May 2014.

The Company has adopted the board diversity policy. The purpose of the policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited gender, race, language, cultural background, educational background, industry experience and professional experience, which are the measurable objectives for implementing the policy.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Nomination Committee is also responsible for reviewing the policy, developing and reviewing measureable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives. The review of the policy and the measureable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board.

During FY2013, the Nomination Committee has considered the board diversity policy and whether the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the board diversity policy for FY2013.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during FY2013. 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	–	–	–	–	–	–
Non-executive Directors						
Mr. Wang Junfeng	–	–	–	–	–	–
Mr. Xu Fang (Resigned on 16 July 2013)	–	–	–	–	–	–
Mr. Zhang Licong (Appointed on 16 July 2013)	–	–	–	–	–	–
Independent 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 Chan Yee Ping, Michael, who has been appointed with effect from 26 September 2013. For FY2013, in accordance with Rule 3.29 of the Listing Rules, Mr. Chan has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Chan are set out in the section headed "Directors and Senior Management" 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 CG Code and the disclosure in this corporate governance report. During FY2013, the Board has carried out such responsibilities during the Board meetings held in the year.

CHAIRMAN AND CHIEF EXECUTIVE

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. Mr. Wang Dongxing is the chairman of our Board and Mr. Ci Xiaolei is the general manager of Shandong Century Sunshine Paper Group Co., Ltd, the principal operating subsidiary of our Group for FY2013. As such, our Company has complied with CG Code in respect of the appointment of chairman and chief executive.

AUDITORS' REMUNERATION

For the FY2013, 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 RMB1.6 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 conducts regular review regarding internal control systems of our Group. During FY2013, 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 performs 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 FY2013 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 FY2013, 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

There are no significant changes to the constitutional documents of our Company during FY2013.

REPORT OF THE AUDIT COMMITTEE

MEMBERS

The audit committee of our Company consists of three independent non-executive Directors. During FY2013 and up to 26 January 2014, the members of the audit committee were Mr. Leung Ping Shing, Mr. Wang Zefeng and Mr. Xu Ye, with Mr. Leung Ping Shing sat as the chairman of the audit committee. Since 27 January 2014, the members of the audit committee are Mr. Leung Ping Shing, Mr. Wang Zefeng and Ms. Jiao Jie, with Mr. Leung Ping Shing sitting as the chairman of the audit committee. Biographical details of the current members are set out in the section headed "Directors and Senior Management".

TERMS OF REFERENCE

Based on the terms of reference of the audit committee as at 31 December 2013, 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 FY2013 and all members at the relevant time 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 FY2012;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2013;
- reviewed the external auditor's audit plan, letter of representation and audit engagement letter for FY2013;
- considered and approved the external audit fees for FY2013;
- reviewed our Company's internal control systems; and
- reviewed the "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 2014.

For FY2013, the external auditors of our Company received or will receive approximately RMB1.6 million in total for their audit services rendered. The external auditors have not provided any non-audit services to our Company during FY2013.

DIRECTORS AND SENIOR MANAGEMENT

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	Position in our Group
Executive Directors	
Mr. Wang Dongxing	Chairman of our Board, a member of the remuneration committee and a member of the nomination committee
Mr. Shi Weixin	Vice chairman of our Board
Mr. Ci Xiaolei	General manager of our Group
Mr. Zhang Zengguo	Deputy general manager of our Group
Non-executive Directors	
Mr. Wang Junfeng	
Mr. Zhang Licong (Appointed on 16 July 2013)	
Mr. Xu Fang (Resigned on 16 July 2013)	
Independent non-executive Directors	
Mr. Leung Ping Shing	Chairman of the audit committee and a member of the remuneration committee
Mr. Wang Zefeng	Chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee
Ms. Jiao Jie (Appointed on 27 January 2014)	Chairlady of the nomination committee and a member of the audit committee
Mr. Xu Ye (Resigned on 27 January 2014)	Chairman of the nomination committee and member of the audit committee

EXECUTIVE DIRECTORS

Mr. Wang Dongxing, aged 51, is an executive Director and the chairman of our Board. Mr. Wang was appointed as a Director on 22 August 2007. 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 57, is an executive Director and the vice chairman of our Board. Mr. Shi was appointed as a Director on 19 November 2007. 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 38, is an executive Director, the general manager and the general engineer of our Group, and is responsible for the production management of our Group. Mr. Ci was appointed as a Director on 24 May 2012. 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. Zhang Zengguo, aged 48, is an executive Director and the deputy general manager of our Group and is responsible for production management. Mr. Zhang was appointed as a Director on 19 November 2007. 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 40, is a non-executive Director and has jointed our Group in May 2009. Mr. Wang was appointed as a Director on 26 May 2009. 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 2013.

Mr. Zhang Licong, aged 36, is currently an executive Director and an investment director of China Everbright Investments Management Limited. Mr. Zhang joined our Group in July 2013 and was appointed as a Director on 16 July 2013. Prior to joining China Everbright Investments Management Limited in October 2003, Mr. Zhang served as a project manager in Shenzhen Pan Schinda CPA from March 2001 to October 2003, and as a client manager in Bank of China from July 2000 to March 2001. Mr. Zhang graduated from Renmin University in 2000, and obtained a bachelor degree of economics. Mr. Zhang is a chartered accountant of the Chinese Institute of Certified Public Accountants.

Mr. Xu Fang, aged 36, was a non-executive Director. Mr. Xu joined our Group in 2006 and was appointed as a Director on 19 November 2007. Mr. Xu resigned as a Director, effective from 16 July 2013. Mr. Xu graduated from Jiangxi University of Finance and Economics, with a major in international finance in 1998. He was an executive director of China Everbright Investments Management Limited. Mr. Xu worked in Shenzhen UnionNet Company between 1998 and 2001 and in Taiwan Securities Co (Hong Kong), Ltd. between 2001 and 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Ping Shing, aged 55, is an independent non-executive Director. Mr. Leung joined our Group in 2010 and was appointed as a Director on 25 November 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 53, is an independent non-executive Director. Mr. Wang joined our Group in 2007 and was appointed as a Director on 19 November 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.

Ms. Jiao Jie, aged 33, is one of our independent non-executive Directors. Ms. Jiao first joined our Group in 2007 and subsequently left our Group in 2010. The last position held by Ms. Jiao was as a joint company secretary of our Company and the special assistant to the chairman of our Board. Ms. Jiao rejoined our Group in January 2014 and was appointed as a Director on 27 January 2014. Ms. Jiao is currently a joint company secretary and a general legal counsel of Artgo Mining Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 3313). Ms Jiao was a legal assistant of Jingtian & Gongcheng from 2004 to 2007. From March 2007 to January 2010, she was the board secretary and special assistant to the chairman of the Company. From January 2010 to February 2012, Ms. Jiao was the chief counsel and head of investor relations of Soufun Holdings Limited, a company listed on the New York Stock Exchange (stock code: SFUN). Ms. Jiao graduated from the Law School and China Center for Economic Research at Peking University with bachelor's degrees in law and economics in July 2003 and obtained a degree of magister juris from University of Oxford in July 2005. Ms. Jiao obtained the certificate of Legal Profession Qualification in March 2010. She also obtained Registered Qualification Certificate of Enterprise Legal Adviser of the PRC from Stated-Owned Assets Supervision and Administration Commission of the State Council in May 2012.

Mr. Xu Ye, aged 41, was an independent non-executive Director. Mr. Xu joined our Group in 2007 and was appointed as a Director on 19 November 2007. Mr. Xu resigned as a Director, effective from 27 January 2014. Mr. Xu was also the chairman of the nomination committee and a member of the audit committee of our Board up to 26 January 2014. Mr. Xu founded Star Link Investments Holdings Ltd. ("Star Link Investments") which 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 45, 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 42, 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 57, 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 43, 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 51, 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 43, 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. Chan Yee Ping, Michael, aged 37, is the company secretary of our Company. Mr. Chan joined our Group in September 2013 and was appointed as a company secretary of our Company on 26 September 2013, Mr. Chan graduated from the Hong Kong Polytechnic University in 1999 with a bachelor degree majoring in accountancy. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has over ten years of experience in corporate secretarial management, accounting and audit and corporate governance. Mr. Chan is currently also a company secretary of Northeast Electric Development Co., Ltd. (東北電氣發展股份有限公司), a joint stock limited company incorporated in the PRC, whose A shares and H shares are listed on the Shenzhen Stock Exchange of the PRC and The Stock Exchange of Hong Kong (stock Code: 0042), respectively. Mr. Chan is an Independent Non-Executive Director of Yueshou Environmental Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock Code: 1191).

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael. 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 FY2013.

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 FY2013 are set out in the consolidated financial statements on page 51.

DIVIDEND

The Board has not recommended the payment of a final dividend for FY2013 (FY2012: Nil).

RESERVES

Details of the change in reserves of our Group for FY2013 are set out in the consolidated financial statements on page 54.

DONATIONS

During FY2013, our Group donated a total of RMB1.3 million (2012: RMB0.2 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 FY2013 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 FY2013 are set out in note 40 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 136.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 51 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 FY2013, 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 FY2013 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)*
Mr. Zhang Zengguo *(Deputy general manager of our Group)*

Non-executive Directors

Mr. Wang Junfeng
Mr. Zhang Licong *(Appointed on 16 July 2013)*
Mr. Xu Fang *(Resigned on 16 July 2013)*

Independent non-executive Directors

Mr. Leung Ping Shing
Mr. Wang Zefeng
Ms. Jiao Jie *(Appointed on 27 January 2014)*
Mr. Xu Ye *(Resigned on 27 January 2014)*

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. Shi Weixin, Mr. Zhang Zengguo and Mr. Leung Ping Shing will retire from office at the forthcoming annual general meeting of our Company to be held on 28 May 2014, 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 2013 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 18 November 2013 with our Company for a term of three years commencing from 19 November 2013 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.

Mr. Wang Junfeng has signed a letter of appointment dated 11 December 2013 with our Company under which he has agreed to act as a non-executive Director for a period of three years, commencing from 12 December 2013, respectively, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Zhang Licong has signed a letter of appointment dated 16 July 2013 with our Company under which he has agreed to act as a non-executive Director for a period of three years, commencing from 16 July 2013, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Wang Zefeng has signed a letter of appointment dated 11 December 2013 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 2013, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Leung Ping Shing has signed a letter of appointment dated 24 November 2013 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 2013, unless terminated in accordance with the terms and conditions specified in such letter.

Ms. Jiao Jie has signed a letter of appointment dated 27 January 2014 with our Company under which she has agreed to act as an independent non-executive Director for a period of three years, commencing from 27 January 2014, under terminated in accordance with the terms and conditions specified in such letter.

Details of directors' emolument for each of our Directors for FY2013 are set out in note 10 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 2013, 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	5,663,500	0.71%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement	630,000	0.08%
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)]	6,293,500	0.78%
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)]	6,293,500	0.78%
Mr. Ci Xiaolei	Beneficial owner	1,440,000	0.18%

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 6,293,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai 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 2013, 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	6,293,500	0.78%
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 5,663,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 630,000 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 and Mr. Wang Changhai 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 2013.

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 2013**	**Granted during the year**	**Exercised during the year**	**Expired during the year**	**As at 31 December 2013**	**Exercise period**
8 April 2010	An employee	800,000	—	—	(800,000)	—	(i)
8 April 2010	An employee	800,000	—	—	—	800,000	(ii)

(i) From 1 July 2012 to 31 December 2013

(ii) From 1 July 2013 to 31 December 2014

Note 1. The fair value of the share options are determined by the Black-Scholes Model. The key assumptions of the Black-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 2013 our Group had around 2,560 full-time employees. The staff costs for the year ended 31 December 2013 was approximately RMB137.1 million, representing an increase of RMB1.1 million over last year of approximately RMB136.0 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 48 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 31 December 2012 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 non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and the details of such continuing non-exempt connected transactions are set out below:

(a) A steam supply agreement dated 31 December 2012 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 2013 to 31 December 2015, 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 2013, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB59.7 million, which was below the annual cap of RMB103.9 million for the year ended 31 December 2013.

(b) An electricity supply agreement dated 31 December 2012 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 2013 to 31 December 2015, 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 2013, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB39.6 million, which was below the annual cap of RMB60.8 million for the year ended 31 December 2013.

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.

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 2013 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

Weifang, China

28 March 2014

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 135, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	6&7	**3,657,671**	3,704,180
Cost of sales		**(3,054,188)**	(3,088,852)
Gross profit		**603,483**	615,328
Other income	8	**117,718**	107,033
Other gains and losses	8	**31,367**	11,016
Distribution and selling expenses		**(256,154)**	(223,193)
Administrative expenses		**(155,080)**	(135,956)
Change in fair value of investment properties	17	**4,651**	32,706
Share of profit of a joint venture	29	**402**	—
Finance costs	9	**(307,442)**	(335,439)
Profit before tax		**38,945**	71,495
Income tax expense	11	**(11,425)**	(16,929)
Profit for the year	13	**27,520**	54,566
Other comprehensive income	12		
Items that may be reclassified subsequently to profit and loss			
Gain on revaluation of investment properties		**–**	20,373
Income tax relating to component of other comprehensive income		**–**	(4,761)
Other comprehensive income for the year, net of income tax		**–**	15,612
		–	15,612
Total comprehensive income for the year		**27,520**	70,178
Profit for the year attributable to:			
Owners of the Company		**22,055**	43,983
Non-controlling interests		**5,465**	10,583
		27,520	54,566
Total comprehensive income attributable to:			
Owners of the Company		**22,055**	59,593
Non-controlling interests		**5,465**	10,585
		27,520	70,178
		RMB	RMB
Earnings per share	15		
— Basic		**0.03**	0.05
— Diluted		**0.03**	0.05

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	16	**3,348,739**	3,252,719
Investment Properties	17	**246,379**	241,728
Prepaid lease payments	18	**254,680**	188,798
Goodwill	19	**18,692**	18,692
Deferred tax assets	20	**9,148**	10,612
Investment in a joint venture	29	**111,162**	—
Assets held for establishment of a joint venture	29	**—**	103,530
Deposits and other receivables	21	**292,060**	122,185
		4,280,860	3,938,264
Current assets			
Prepaid lease payments	18	**7,632**	3,853
Inventories	22	**285,521**	656,496
Trade receivables	23	**360,495**	392,456
Loan receivable	24	**—**	50,000
Bills receivable	25	**687,163**	528,567
Prepayments and other receivables	27	**281,034**	323,603
Income tax recoverable		**6,739**	6,000
Restricted bank deposits	28	**1,230,308**	1,162,368
Bank balances and cash	28	**466,934**	258,391
		3,325,826	3,381,734
Assets classified as held for sale	29	**—**	157,550
		3,325,826	3,539,284
Current liabilities			
Trade payables	30	**517,470**	408,602
Bills payable	31	**152,157**	90,000
Other payables	32	**95,473**	111,331
Payable for construction work, machinery and equipment		**6,927**	58,036
Income tax payable		**451**	3,915
Obligations under finance leases — current portion	33	**102,679**	95,372
Deferred income — current portion	34	**2,367**	2,103
Derivative financial instruments	35	**1,149**	259
Discounted bill financing	36	**1,671,026**	1,870,699
Bank borrowings — due within one year	37	**2,831,940**	2,355,939
Other borrowings	38	**14,000**	14,000
Short-term financing notes	39	**300,000**	—
		5,695,639	5,010,256
Net current liabilities		**2,369,813**	1,470,972
Total assets less current liabilities		**1,911,047**	2,467,292

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Capital and reserves			
Share capital	40	**72,351**	72,351
Reserves	41	**1,434,271**	1,412,151
Equity attributable to owners of the Company		**1,506,622**	1,484,502
Non-controlling interests		**93,488**	85,323
Total equity		**1,600,110**	1,569,825
Non-current liabilities			
Obligations under finance leases — non-current portion	33	**92,573**	195,351
Bank borrowings — due after one year	37	**174,727**	656,469
Deferred income — non-current portion	34	**22,829**	25,460
Deferred tax liabilities	20	**20,808**	20,187
		310,937	897,467
Total equity and non-current liabilities		**1,911,047**	2,467,292

The consolidated financial statements on pages 51 to 135 were approved by the board of directors on 28 March 2014 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Ci Xiaolei
DIRECTOR

For the year ended 31 December 2013

	Attributable to owners of the Company												
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000 (note 41)	Capital reserve RMB'000 (note 41)	Share options reserve RMB'000	Assets revaluation reserve RMB'000 (note 41)	Statutory surplus reserve RMB'000 (note 41)	Discretionary surplus reserve RMB'000 (note 41)	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	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 i)	–	–	–	–	338	–	–	–	–	–	338	(2,411)	(2,073)
Recognition of equity-settled share-based payments (note 42)	–	–	–	–	–	219	–	–	–	–	219	–	219
Transfer upon expiry of share options	–	–	–	–	–	(856)	–	–	–	856	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	–	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
Profit for the year	–	–	–	–	–	–	–	–	–	22,055	22,055	5,465	27,520
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	22,055	22,055	5,465	27,520
Capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	2,700	2,700
Recognition of equity-settled share-based payments (note 42)	–	–	–	–	–	65	–	–	–	–	65	–	65
Transfer upon expiry of share options	–	–	–	–	–	(427)	–	–	–	427	–	–	–
Transfer upon disposal of a subsidiary	–	–	–	–	(5,129)	–	–	–	–	5,129	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	–	3,325	–	(3,325)	–	–	–
At 31 December 2013	72,351	610	695,682	(2,776)	79,992	–	19,806	75,375	5,429	560,153	1,506,622	93,488	1,600,110

Notes:

(i) On 18 September 2012, the Company acquired additional interests of 4.46% 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 shareholders with an aggregate consideration of RMB2,073,000. Upon the completion of the transactions in 2012, 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 2013

	2013 RMB'000	2012 RMB'000
Operating activities		
Profit before tax	**38,945**	71,495
Adjustments for:		
Interest income	**(45,984)**	(27,855)
Finance costs	**307,442**	335,439
Depreciation of property, plant and equipment	**196,210**	192,473
Release of prepaid lease payments	**7,632**	3,481
Loss/(gain) on disposal of property, plant and equipment	**773**	(6,326)
Gain on disposal of assets classified as held for sale	**(7,360)**	—
Release of deferred income	**(2,367)**	(2,103)
Expense recognised in profit or loss in respect of equity-settled share-based payment	**65**	219
Loss/(gain) on fair value changes of derivative financial instruments	**890**	(430)
Gain on fair value changes of investment properties	**(4,651)**	(32,706)
Increase in bad debt allowance	**3,551**	—
Gain on disposal of subsidiary	**(5,497)**	—
Operating cash flows before movements in working capital	**489,649**	533,687
Decrease/(increase) in inventories	**370,975**	(31,389)
Decrease/(increase) in trade receivables	**28,410**	(30,130)
(Increase)/decrease in bills receivable	**(155,696)**	262,199
Decrease/(increase) in prepayments and other receivables	**(101,118)**	54,684
Increase/(decrease) in trade payables	**108,868**	(142,760)
Increase/(decrease) in bills payable	**62,157**	(116,500)
Decrease in other payables	**(15,725)**	(48,941)
Settlement of interest swap contract	**—**	(825)
Cash generated from operations	**787,520**	480,025
Income tax paid	**(13,543)**	(15,118)
Net cash generated from operating activities	**773,977**	464,907

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
Investing activities		
Interest received	**26,811**	26,736
Proceeds from disposal of property, plant and equipment	**15,559**	2,548
Proceeds from disposal of held for sale assets	**99,470**	—
Collection of the loan receivable	**50,000**	—
Proceeds from disposal of a subsidiary (Note 50)	**1,058**	—
Government grants received	**—**	300
Cash paid for the establishment of a joint venture	**(18,270)**	—
Purchase of property, plant and equipment	**(360,750)**	(477,007)
Increase in restricted bank deposits	**(67,940)**	(226,897)
Prepaid lease payments of land use rights	**—**	(69,902)
Increase in loans receivable	**—**	(50,000)
Deposit for acquisition of prepaid lease payment	**—**	(78,565)
Guarantee deposits for finance leases	**—**	(43,620)
Net cash used in investing activities	**(254,062)**	(916,407)
Financing activities		
Interest paid	**(311,757)**	(360,676)
Repayment of borrowing	**(3,190,230)**	(3,274,912)
Repayment of obligations under finance lease	**(95,471)**	(75,437)
Net proceeds from issue of short-term financing notes	**298,800**	—
New bank borrowings raised	**3,184,259**	3,385,534
Proceeds from sale and finance lease back transactions	**—**	141,880
(Decrease) increase in discounted bill financing	**(199,673)**	682,157
Dividend paid to owners of the Company	**—**	(16,854)
Acquisition of additional interests in a subsidiary	**—**	(2,073)
Capital contribution by non-controlling shareholders of subsidiaries	**2,700**	4,000
Dividends paid to non-controlling shareholders of a subsidiary	**—**	(6)
Repayment of advance from related parties	**—**	(22,000)
Net cash generated from financing activities	**(311,372)**	461,613
Net increase in cash and cash equivalents	**208,543**	10,113
Cash and cash equivalents at beginning of the year	**258,391**	248,278
Cash and cash equivalents at end of the year, representing bank balances and cash	**466,934**	258,391

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) (the "Company") is a 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 of the Company (the "Directors"), the Company's controlling shareholder is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands) whose 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 RMB2,369,813,000 as at 31 December 2013. As stated in Notes 44(d) and 52, the Directors are of the opinion that, taking into account the present available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by the banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. 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 new and revised IFRS issued by the International Accounting Standards Board ("IASB") which are or have become effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle;
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities;
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance;
IFRS 10	Consolidated Financial Statements;
IFRS 11	Joint Arrangements;
IFRS 12	Disclosure of Interests in Other Entities;
IFRS 13	Fair Value Measurement;
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures;
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income; and

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

In addition, the Group has early adopted the amendments to IAS 36 Impairment of Financial Assets: Recoverable Amount Disclosures for Non-Financial Assets in advance of it effective date.

Except as described below, the application and early adoption of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements

Amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The amendments to IFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements but has resulted in more disclosures relating to the Group's. Detailed disclosures are set out in Note 26.

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures, together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding transitional guidance.

IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation — Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. The directors have assessed its involvement in its subsidiaries and considered the application of IFRS 10 has had no material impact on the consolidated financial statements.

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

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The Directors reviewed and assessed the Group's involvement in 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Speciality Paper Co.,Ltd) ("Sunshine Oji") in accordance with the requirements of IFRS 11. The application of IFRS 11 has had no material impact on the consolidated financial statements.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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

IFRS 13 Fair Value Measurement (continued)

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 17 and Note 44(d).

The application of the other new or revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

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

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (continued)

These amendments are effective for annual period beginning on or after 1 January 2014. The directors have early adopted the amendments in advance of effective date and prepared the disclosures relating to recoverable amount of non-financial assets in accordance with the amendments.

New and revised IFRSs in issue but not yet effective

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 IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016.

Except as described below, the Directors 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.

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, and further amended in 2013 to include the new requirements for hedge accounting.

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

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (continued)

New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of IFRS 9 in the future have no material impact on the Group, based on an analysis of the Group's financial assets and liabilities as at 31 December 2013.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

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.

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.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture (continued)

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture (continued)

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

When a group entity earned financial income from a joint venture of the Group from its lending to this joint venture, the financial income earned from the joint venture of the Group is fully recognised in the Group's consolidated financial statements.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. 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.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint control over the joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

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

Interest income from a financial asset is 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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss and other 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

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.

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. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets other than goodwill (continued)

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 of inventory 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 of inventory 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, restricted bank deposits, bank balance and cash, bill receivables, loan receivable, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables (continued)

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.

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

Debt 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

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

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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern basis for preparation of the consolidated financial statements

As disclosed in Note 2, the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration of all relevant available information about the future of the Group, including the proposed measures as described in Note 2 and the cash flow projections for the next twelve months from the date of 31 December 2013. Such projections about the future inherently involve uncertainties in the sale prices of finished goods, the purchasing prices of the raw materials, and the renew of banking facilities. The Directors have reviewed the relevant available information and key assumptions used in the cash flow projections for the year ending 31 December 2014, and have concluded that the use of the going concern basis for preparation of the consolidated financial statements for the year 2013 is proper.

Deferred taxation from the land appreciation tax on investment properties

For the purposes of measuring deferred tax liabilities of land appreciation tax arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under the lease purpose to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred tax liabilities of land appreciation tax on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group has not recognised any deferred taxation from the land appreciation tax on changes in fair value of investment properties.

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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 2013, the carrying amount of inventories is approximately RMB285,521,000 (2012: RMB656,496,000) (See Note 22 for more details).

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 2013, the aggregate carrying amount of trade, bills, loan and other receivables is approximately RMB1,221,549,000 (2012; RMB1,222,210,000). Details of movements of allowance for doubtful receivables are disclosed in Note 23.

Deferred tax assets

As at 31 December 2013, deferred tax assets of RMB9,148,000 (31 December 2012: RMB10,612,000) 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 RMB711,000 (2012: RMB7,273,000) 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 2013

	Paper products					
	White top linerboard RMB'000	**Light-coated linerboard RMB'000**	**Core board RMB'000**	**Specialised paper products RMB'000**	**Electricity and steam RMB'000**	**Total RMB'000**
Revenue from external customers	**1,106,745**	**1,550,987**	**477,929**	**387,092**	**134,918**	**3,657,671**
Inter-segment revenue	**—**	**—**	**—**	**—**	**383,267**	**383,267**
Segment revenue	**1,106,745**	**1,550,987**	**477,929**	**387,092**	**518,185**	**4,040,938**
Segment profit	**180,692**	**259,853**	**66,056**	**69,555**	**36,464**	**612,620**

For the year ended 31 December 2012

	Paper products					
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised 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

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 other income, other gains or losses, other expenses, distribution and selling expenses, administrative expenses, finance costs, to paper products segment and does not allocate income tax expenses to both the paper product segment or electricity and steam 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:

	2013 RMB'000	2012 RMB'000
Profit		
Segment profit	612,620	659,441
Unrealised profit on inter-segment sales	(55,110)	(107,649)
	557,510	551,792
Distribution and selling expenses	(256,154)	(223,193)
Administrative expenses	(139,545)	(119,985)
Other income	114,386	102,256
Other gains and losses	27,347	8,781
Finance cost	(269,652)	(280,862)
Change in fair value of investment properties	4,651	32,706
Share of profit of a joint venture	402	—
Consolidated profit before taxation	38,945	71,495

Depreciation of property, plant and equipment and release of prepaid lease payments, finance cost and interest income amounted to RMB45,541,000 (2012: RMB43,477,000), RMB37,790,000 (2012: RMB54,577,000), and RMB1,727,000 (2012: RMB3,637,000) was included in segment profit of the electricity and steam segment.

The Group does not allocate depreciation of property, plant and equipment and release of prepaid lease payment, financial cost and interest income to the relevant paper product segments in the internal segment analysis as this information is not necessary to the chief operating decision maker.

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 all the customers are substantially 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

	2013 RMB'000	2012 RMB'000
Other income:		
Interest income on bank deposits	28,023	24,903
Interest income from the balances with a joint venture (Note iii)	17,693	—
Interest income from loan receivable	268	2,952
Rental income from investment properties and other properties	6,819	4,912
Government grants (Note i & ii)	54,718	70,848
Waiver for certain payables from the suppliers	7,501	—
Insurance premium refunded	2,696	3,404
Others	—	14
	117,718	107,033
Other gains or losses:		
Net foreign exchange gain	15,475	958
Gain from sale of scrap materials, net	4,135	1,076
Gain on disposal of a subsidiary	5,497	—
(Loss)/gain on disposal of property, plant and equipment	(773)	6,326
Gain on disposal of assets classified as held for sale	7,360	—
Change in the fair value of derivative financial instrument	(890)	430
Impairment loss of trade receivable	(3,551)	—
Others	4,114	2,226
	31,367	11,016

Note:

i. During the year ended 31 December 2013, 昌樂昌東廢紙收購有限公司 (Changle Changdong Waste Paper Recovery Co., Ltd) ("Changdong Paper Recovery") obtained unconditional government subsidy of approximately RMB26,048,000 (2012: RMB30,064,000) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

ii. During the year ended 31 December 2013, 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 RMB24,881,000 (2012: RMB36,511,000) from local government for the purpose of supporting its operation.

iii. During the year ended 31 December 2013, the Group earned interest income from 陽光王子（壽光）特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd ("Sunshine Oji" or the "JV Company"), a joint venture company of the Company, at 20% over the prevailing bank lending rates announced by the People's Bank of China (similar to the Group's borrowing rate from the banks approximately 7% per annum).

9. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expenses on:		
Discounted bill financing	**83,345**	135,843
Bank and other borrowings wholly repayable within five years	**196,536**	207,001
Finance leases	**18,285**	21,556
Short-term financing notes	**16,668**	—
	314,834	364,400
Less: Interest capitalised in construction in progress	**(7,392)**	(28,961)
	307,442	335,439

Borrowing costs capitalised during the year ended 31 December 2013 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.83% (2012: 6.79%) per annum to expenditure on construction in progress.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

	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
2013					
Executive directors:					
Wang Dongxing	50	280	—	399	729
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	291	8	37	386
Ci Xiaolei (Note ii)	50	168	8	265	491
Non-executive directors:					
Xu Fang	50	—	—	—	50
Wang Junfeng	50	—	—	—	50
Independent non-executive directors:					
Leung Ping Shing	96	—	—	—	96
Wang Zefeng	50	—	—	—	50
Xu Ye	50	—	—	—	50
	496	739	16	701	1,952

10. 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
2012					
Executive directors:					
Wang Dongxing	50	236	—	642	928
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	148	4	265	467
Wang Yilong	50	—	—	—	50
Ci Xiaolei (Note ii)	—	122	3	142	267
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	506	7	1,049	2,059

Note:

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

ii. Mr. Ci Xiaolei has been appointed as an executive director with effect from 24 May 2012.

Employees

The five highest paid individuals of the Group during the year, included 3 directors (2012:2 director), details of their emoluments are set out above. The emoluments of the remaining 2 (2012: 3) individuals during the year are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other allowances	**974**	1,515
Retirement benefits schemes contributions	**9**	18
Equity-settled share-based payment	**65**	219
	1,048	1,752

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees (continued)

The above employees' emoluments were within the following band:

	Number of individuals	
	2013	2012
Nil to HK$1,000,000	**2**	3

During both years, no emoluments were paid by the Group to the Directors 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.

11. INCOME TAX EXPENSE

	2013 **RMB'000**	2012 RMB'000
Current tax		
PRC enterprise income tax	**10,702**	13,458
Over provision in previous year	**(1,362)**	—
Deferred tax charge	**2,085**	3,471
	11,425	16,929

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law. Other than disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2012: 25%).

Pursuant to the approval of the Jiangsu State Tax Bureau, 昆山世紀陽光紙業有限公司 (Kunshan Century Sunshine Paper Industry Co., Ltd.) ("Kunshan Sunshine"), which became a foreign investment enterprise in 2006, was exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in next three years. Kunshan Sunshine commenced its first profit-making year in 2008 and accordingly, the applicable income tax rate for the year ended 31 December 2013 was 25% (2012: 12.5%). The Group has fully disposed Kunshan Sunshine to a third party in November 2013.

11. INCOME TAX EXPENSE (continued)

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. During the year 2013, Century Sunshine obtained the renewed Advanced Technology Enterprise certification. Pursuant to the relevant laws and regulations in the PRC, Century Sunshine was entitled to enterprise income tax rate of 15% from 2010 to 2015.

During the year ended 31 December 2013, 昌樂新邁紙業有限公司 (Changle Numat Paper company Industry Co., Ltd.) ("Changle Numat") 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 2013 to 2015.

No provision for Hong Kong Profit Tax has been made for the year ended 31 December 2013 and 2012 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:

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**38,945**	71,495
Tax at the applicable income tax rate of 25% (2012: 25%)	**9,736**	17,874
Tax effect of expenses not deductible	**2,901**	1,628
Tax effect of profit from transaction with a joint venture	**2,760**	—
Tax effect of share of result of a joint venture	**(100)**	—
Effect of tax concession granted to certain subsidiaries	**(1,296)**	(5,138)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries (Note (a))	**143**	811
Over provision in previous year	**(1,362)**	—
Utilisation of tax losses previously not recognised	**(1,357)**	(64)
Tax effect of tax losses not recognised	**—**	1,818
Tax charge for the year	**11,425**	16,929

Notes:

(a) Under the Double Taxation Arrangement between Hong Kong and Mainland China, 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%. 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.

12. OTHER COMPREHENSIVE INCOME

	2013 RMB'000	2012 RMB'000
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss		
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

	2013			2012		
	Before tax amount RMB'000	**Tax expense RMB'000**	**Net of income tax amount RMB'000**	Before tax amount RMB'000	Tax effect RMB'000	Net of income tax amount RMB'000
Item that may be reclassified subsequently to profit or loss						
Gain on revaluation of properties and prepaid lease payments transferred to investment properties	–	–	–	20,373	(4,761)	15,612

13. PROFIT FOR THE YEAR

	2013 RMB'000	2012 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Wages and salaries	120,227	121,997
Retirement benefits schemes contributions	16,846	13,778
Equity-settled share-based payment	65	219
Total staff costs (including Directors' emoluments)	137,138	135,994
Cost of inventories recognised as an expense	3,022,884	2,965,911
Depreciation of property, plant and equipment	196,210	192,473
Impairment losses on trade receivable	3,551	—
Release of prepaid lease payments	7,632	3,481
Auditor's remuneration	2,371	2,187
Net foreign exchange gain	(15,475)	(958)
Rental income from investment properties and other properties	(6,819)	(4,912)
Direct operating expenses incurred for Investment Properties generated rental income during the year	52	23

14. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Dividends declared for distribution during the year:		
2012 final dividend — Nil (2012: 2011 final dividend — RMB0.021 per share)	—	16,854

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2013 (2012: Nil).

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:

Earnings

	2013 RMB'000	2012 RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	22,055	43,983

Number of shares

	2013	2012
Number of ordinary shares for the purpose of basic earnings per share	802,588,000	802,588,000
Effect of dilutive potential ordinary shares:		
Share options	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	802,588,000	802,588,000

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 the year ended 31 December 2013 and 2012.

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 2012	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 (note iv)	—	(99,470)	(58,080)	(157,550)
Reclassified as held for establishment of a joint venture (note v)	(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
Additions	9,203	58,055	249,775	317,033
Transfers	6,256	155,768	(162,024)	—
Eliminated on disposal of a subsidiary	(10,046)	—	—	(10,046)
Disposals	—	(36,600)	—	(36,600)
At 31 December 2013	**820,214**	**3,172,483**	**146,380**	**4,139,077**
DEPRECIATION				
At 1 January 2012	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
Provided for the year	22,944	173,266	—	196,210
Eliminated on disposal of a subsidiary	(1,575)	—	—	(1,575)
Eliminated on disposals	—	(20,268)	—	(20,268)
At 31 December 2013	**113,017**	**677,321**	**—**	**790,338**
CARRYING AMOUNT				
At 31 December 2013	**707,197**	**2,495,162**	**146,380**	**3,348,739**
At 31 December 2012	723,153	2,470,937	58,629	3,252,719

Note:

(i) 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	2.5–5%
Plant and machinery, and equipment	5.56–20%

(ii) The net book value of property, plant and equipment includes an amount of RMB420,690,000 (31 December 2012: RMB462,762,000) in respect of assets held under finance leases.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: (continued)

(iii) Details of property, plant and equipment pledged are set out in Note 45.

(iv) Certain equipment together with construction in process amounting to RMB157,550,000 reclassified assets as held for sale as at 31 December, 2012, were sold by Century Sunshine to Sunshine Oji upon its establishment for a consideration of RMB175,950,000 (Note 29) in current year.

(v) Buildings with carrying amount of RMB61,290,000 (Note 29) classified as held for establishment of a joint venture as at 31 December 2012 had been transferred to the Sunshine Oji as part of the Group's capital contribution when the Sunshine Oji was established in current year.

17. INVESTMENT PROPERTIES

	Completed investment properties RMB'000	Investment property under construction RMB'000	Total RMB'000
FAIR VALUE			
At 1 January 2012	—	—	—
Transfers from property, plant and equipment and prepaid lease payments	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
Additions	—	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
Net increase in fair value recognised in profit or loss	4,651	—	4,651
At 31 December 2013	**246,379**	**—**	**246,379**

The Group's investment properties at the end of 31 December 2013 were remeasured to fair value by reference to a valuation performed 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 a member of the Institute of Valuers. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market, as appropriate. The valuation and all key assumptions used in the valuation reflect market conditions at the valuation date. The resulting increase in fair value of investment properties of RMB4,651,000 has been recognised directly in profit or loss for the period ended 31 December 2013 (period ended 31 December 2012: RMB32,706,000).

17. INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 3 RMB'000	Fair value as at 31/12/2013 RMB'000
Commercial property units located in PRC	246,379	246,379

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs for fair value
Certain office part of the property in Weifang, Shandong	Level 3	Residual Approach The key inputs is: (1) Market unit sales rate; (2) Location markdown;	Market unit sales rate, using market direct comparable at RMB5,500–5,800/sq.m.	The increase in the market unit sales rate would result in a increase in fair value.
			Location markdown, based on location and other individual adjustment factors at 1%–5%.	The increase in the location markdown would result in a decrease in fair value.
Certain retail part of the property in Weifang, Shandong	Level 3	Income method (term and reversionary approach) The key inputs are: (3) Term yield; (4) Reversionary yield; and (5) Market unit rent of individual unit	Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 4.5%.	The increase in the term yield would result in a decrease in fair value.
			Reversionary yield, taking into account annual unit market rental income and unit market value of the comparable properties, of 5.5%.	The increase in the reversionary yield would result in a decrease in fair value.
			Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB1 sq.m./month to RMB1.5sq.m./month.	The increase in the market unit rent would result in a increase in fair value.
Property in Kunshan, Jiangsu	Level 3	Income method (term and reversionary approach) The key inputs are: (1) Term yield; (2) Reversionary yield; and (3) Market unit rent of individual unit	Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 7.5%.	The increase in the term yield would result in a decrease in fair value.
			Reversionary yield, taking into account annual unit market rental income and unit market value of the comparable properties, of 8%.	The increase in the reversionary yield would result in a decrease in fair value.
			Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB0.49 sq.m./month to RMB0.51 sq.m./month.	The increase in the market unit rent would result in a increase in fair value.

There were no transfers into or out of Level 3 during the year.

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 certificates for one (2012: two) investment property. In the opinion of the Directors, the Group is entitled to lawfully and validly occupy and use the above-mentioned property without incurring significant additional cost in obtaining the building certificate.

18. PREPAID LEASE PAYMENTS

	2013 **RMB'000**	2012 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**254,680**	188,798
Current assets	**7,632**	3,853
	262,312	192,651

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.

During the year ended 31 December 2013, prepaid lease payments of the land use right with carrying amount of RMB42,240,000 have been transferred to the Sunshine Oji as part of the Group's capital contribution when the Sunshine Oji was established in current year (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 RMB4,240,000 (2012: RMB50,700,000). In the opinion of the Directors, 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 45.

19. GOODWILL

	2013 RMB'000	2012 RMB'000
COST		
At beginning of the year	**19,246**	19,246
Derecognised on disposal of a subsidiary	**(554)**	—
At end of the year	**18,692**	19,246
IMPAIRMENT		
At beginning of the year	**554**	554
Derecognised on disposal of a subsidiary	**(554)**	—
At end of the year	**—**	554
CARRYING AMOUNT		
At end of the year	**18,692**	18,692

For the purposes of impairment testing, goodwill as at 31 December 2013 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 11.55% (2012: 14.05%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 3% (2012: 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 RMB'000	Allowance for doubtful debts and inventories RMB'000	Deferred income RMB'000	Tax losses RMB'000	Fair value adjustment on property, plant and equipment RMB'000	Change in fair value of derivative financial instruments RMB'000	Change in fair value of leasehold/ investment properties RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2012	2,311	13	4,915	758	(5,350)	207	–	(4,197)	(1,343)
Credited (charged) to profit or loss (Note 11)	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)
Credited (charged) to profit or loss (Note 11)	(3,113)	533	(369)	1,352	220	133	(698)	(143)	(2,085)
At 31 December 2013	**914**	**546**	**4,246**	**2,933**	**(4,910)**	**172**	**(10,410)**	**(5,151)**	**(11,660)**

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

	2013 RMB'000	2012 RMB'000
Deferred tax assets	**9,148**	10,612
Deferred tax liabilities	**(20,808)**	(20,187)
	(11,660)	(9,575)

Unrecognised deductible unused tax losses:

	2013 RMB'000	2012 RMB'000
Deductible tax losses	**20,264**	17,815
Less: available for offset future profit	**19,553**	10,542
Unused tax losses for which no deferred tax assets have been recognised	**711**	7,273

20. DEFERRED TAXATION (continued)

The Group has not recognised deferred tax assets on above tax losses, because it is not probable that the future taxable profits will be available in relevant subsidiaries to utilise the tax losses.

Tax losses unrecognised will expire in:

	2013 RMB'000	2012 RMB'000
2017	64	7,273
2018	647	—
	711	7,273

21. DEPOSITS AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Deposit for acquisition of prepaid lease payments	—	78,565
Due from a joint venture (Note 48)	241,001	—
Guarantee deposits for finance leases	39,254	43,620
Deposit for acquisition of property, plant and equipment	11,805	—
	292,060	122,185

22. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	196,207	337,950
Finished goods	89,314	318,546
	285,521	656,496

23. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2013 RMB'000	2012 RMB'000
Trade receivables due from:		
— Third parties	352,656	382,757
— Related parties (Note 48(b))	7,839	9,699
	360,495	392,456

Included in the balance of trade receivables above, approximately RMB230,000,000 at 31 December 2013 (2012: RMB348,000,000) was pledged to banks to secure banking facilities granted to the Group.

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

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:

	2013 RMB'000	2012 RMB'000
0–30 days	259,950	253,132
31–90 days	64,590	99,742
91–365 days	30,954	34,867
Over 1 year	5,001	4,715
	360,495	392,456

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

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB50,549,000 (2012: RMB55,561,000) 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.

23. TRADE RECEIVABLES (continued)

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

	2013 RMB'000	2012 RMB'000
31–90 days	**14,593**	15,979
91–365 days	**30,954**	34,867
Over 1 year	**5,002**	4,715
	50,549	55,561

The Directors 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:

	2013 RMB'000	2012 RMB'000
At the beginning of the year	**78**	78
Provided during the year	**3,551**	—
At the end of the year	**3,629**	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

	2013 **RMB'000**	2012 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 fully collected in the current year.

25. BILLS RECEIVABLE

	2013 **RMB'000**	2012 RMB'000
Bills receivable	**687,163**	528,567

During the year, the Group has discounted bills receivable of RMB11,443,000 (2012: RMB255,199,000) (Note 26) 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.

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

	2013 **RMB'000**	2012 RMB'000
0–90 days	**427,683**	248,803
91–180 days	**259,480**	279,764
	687,163	528,567

26. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2013 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 2013

	Bills receivable discounted to banks with full recourse RMB'000	**Total RMB'000**
Carrying amount of transferred assets (Note 36)	**11,443**	**11,443**
Carrying amount of associated liabilities	**(11,443)**	**(11,443)**
Net 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	—	—

In addition, bills receivable issued among subsidiaries of the Group for intra-group transactions amounting to RMB1,659,583,000 as at 31 December 2013 (2012: RMB1,615,500,000) have been discounted with full recourse to secure bank borrowings amounting to RMB1,659,583,000 (2012: RMB1,615,500,000) and these bills receivable have been eliminated in the consolidated financial statements (see Note 36).

The Group has transferred bills receivables amounted to RMB504,446,000 (2012: RMB618,815,000) to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognized these bills receivables and the payables to suppliers in their entirety, as in the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills to the suppliers. The Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

26. TRANSFER OF FINANCIAL ASSETS (continued)

The maximum exposure to loss, which is same as the amount payable by the Group to the supplier in respect of the endorsed bills, should the issuing bank fail to settle the bills on maturity date amounted to RMB504,446,000 (2012: RMB618,815,000).

All the bills receivables endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

27. PREPAYMENTS AND OTHER RECEIVABLES

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

	2013 **RMB'000**	2012 RMB'000 Restated
Prepayments to suppliers	**107,143**	116,036
Other receivables	**173,891**	207,567
	281,034	323,603

An analysis of other receivables is as follows:

	2013 **RMB'000**	2012 RMB'000
VAT recoverable	**136,286**	191,968
VAT refund as a government subsidy	**8,826**	3,537
Advance to employees	**2,619**	2,447
Deposits	**4,502**	790
Interest receivable	**—**	560
Consideration to be received from disposal of a subsidiary	**9,840**	—
Others	**11,818**	8,265
	173,891	207,567

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% (2012: from 0.35% to 3.05%) 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 2013 (2012: 0.35% per annum).

Bank balances and cash at 31 December 2013 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. INTEREST IN A JOINT VENTURE/ASSETS HELD FOR ESTABLISHMENT OF A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE

On 3 July 2012, Century Sunshine has entered into a joint venture agreement (the "First JV Agreement") with Dragon Chariot Limited and Oji Holdings Corporation (previously known as Oji Paper Co., Ltd) ("Oil Paper"), two independent third parties, for the establishment of Sunshine Oji. The principal activities of Sunshine Oji include the manufacture and sales of specialty paper, in particular, decorative paper, medical wrapping paper and cheque paper in the PRC. Pursuant to the First JV Agreement, upon establishment, Sunshine Oji would be owned as to 51% by Century Sunshine, 29% and 20% by the other two investors respectively. Sunshine Oji was jointly controlled by the Group and the other two investors by virtue of contractual arrangements among shareholders. Therefore, Sunshine Oji was classified as a joint venture of the Group. The registered capital of Sunshine Oji of RMB203 million would be contributed by Century Sunshine and the other two investors based on their respective interests in Sunshine Oji by either cash or non-cash assets. According to the First JV Agreement, Century Sunshine made its capital contribution by way of non-cash assets of RMB103,530,000, including land use rights amounting to RMB42,240,000 (See Note 18) and buildings amounting to RMB61,290,000 (See Note 16) which were acquired by Century Sunshine through an open auction on 8 December 2011.

As stated in the First JV Agreement, production facilities and equipment amounting to RMB99,470,000 acquired from an open auction by Century Sunshine was sold by Century Sunshine to Sunshine Oji. In addition, additional equipment amounting to RMB58,080,000 was acquired by Century Sunshine on behalf of Sunshine Oji and was still being assembled and tested as at 31 December 2012. Accordingly, those assets have been classified as assets held for sale and were presented separately in the consolidated statement of financial position as at 31 December 2012.

29. INTEREST IN A JOINT VENTURE/ASSETS HELD FOR ESTABLISHMENT OF A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE

(continued)

On 1 July 2013, Century Sunshine has entered into a new joint venture agreement (the "New JV Agreement") with Oji F-Tex Co. Ltd. ("Oji F-Tex"), a wholly owned subsidiary of Oji Paper in relation to Sunshine Oji. Pursuant to the New JV Agreement, Century Sunshine would make further capital contribution to Sunshine Oji, upon completion of the New JV Agreement, Sunshine Oji has owned as to 60% by Century Sunshine and 40% by Oji F-Tex. Since the governing board of Sunshine Oji is its board of directors which direct the relevant activities of Sunshine Oji, and the decisions about the relevant activities of Sunshine Oji require the unanimous consent in the board of directors of Sunshine Oji, the Directors are of the view that the Group will still account for Sunshine Oji as a joint venture upon completion of the New JV Agreement. According to the New JV Agreement, Century Sunshine made its capital contribution amounting to RMB121,800,000 by way of non-cash assets and cash of RMB103,530,000 and RMB18,270,000 respectively. The non-cash assets portion of capital contribution included land use rights amounting to RMB42,240,000 (See Note 18), buildings amounting to RMB61,290,000 (See Note 16(v)) classified as held for establishment of a joint venture as at 31 December 2012 which were acquired by Century Sunshine through an open auction on 8 December 2011.

	2013 **RMB'000**
Cost of investment in a joint venture	
Unlisted	**121,800**
Share of post-acquisition profits and other comprehensive income	**402**
Less: effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(11,040)**
	111,162

Details of the Group's investment in Sunshine Oji are as follows:

Name of entity	**Form of entity**	**Principal place of operation and incorporation**	**Proportion of ownership interest held by the Group**		**Proportion of voting rights held by the Group**		**Principal activity**
			2013 **%**	2012 %	**2013** **%**	2012 %	
Sunshine Oji	Limited incorporated	PRC	**60**	N/A	**60**	N/A	Special paper production

29. INTEREST IN A JOINT VENTURE/ASSETS HELD FOR ESTABLISHMENT OF A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE (continued)

Summarised financial information of Sunshine Oji

Summarised financial information of Sunshine Oji is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

Sunshine Oji is accounted for using the equity method in these consolidated financial statements.

	2013 RMB'000
Current assets	149,747
Non-current assets	342,990
Current liabilities	(289,068)
Non-current liabilities	–
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	6,632
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–

	2013(*) RMB'000
Revenue	116,834
Profit for the year	669
Other comprehensive income for the year	–
Total comprehensive income for the year	669
The above profit for the year include the following:	
Depreciation and amortisation	1,775
Interest income	(6)
Interest expense	2,654
Income tax expense	223

* Representing the period from 1 October, 2013 (the date of the commercial run) to 31 December, 2013.

29. INTEREST IN A JOINT VENTURE/ASSETS HELD FOR ESTABLISHMENT OF A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE (continued)

Summarised financial information of Sunshine Oji (continued)

Reconciliation of financial information to the carrying amount of the interest in Sunshine Oji recognised in the consolidated financial statements:

	2013 RMB'000
Net assets of Sunshine Oji	**203,669**
Proportion of the Group's ownership interest in Sunshine Oji	**122,202**
Less: effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(11,040)**
Carrying amount of the Group's interest in Sunshine Oji	**111,162**

30. TRADE PAYABLES

An analysis of trade payables is as follows:

	2013 RMB'000	2012 RMB'000
Trade payables to third parties	**517,470**	408,602

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:

	2013 RMB'000	2012 RMB'000
0–90 days	**433,568**	337,535
91–365 days	**61,613**	51,704
Over 1 year	**22,289**	19,363
	517,470	408,602

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:

	2013 RMB'000	2012 RMB'000
0–90 days	**83,457**	5,000
91–180 days	**68,700**	85,000
	152,157	90,000

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:

	2013 RMB'000	2012 RMB'000
Other payables due to:		
— Third parties	**95,473**	111,331

	2013 RMB'000	2012 RMB'000
Other payables	**36,714**	26,403
Advance from customers	**48,498**	53,254
Accrued payroll and welfare	**389**	—
VAT and other tax payable	**8,506**	27,048
Interest payable	**1,366**	4,626
	95,473	111,331

33. OBLIGATIONS UNDER FINANCE LEASE

The Group leased certain machinery for a term of 3 to 5 years under the sales and leaseback arrangements resulting in finance leases before 31 December 2012.

The Group has options to purchase these equipment for a nominal amount at the end of the lease terms. Such transaction was considered as sale and lease back arrangement resulting in a financing lease.

	2013 RMB'000	2012 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**102,679**	95,372
Non-current liabilities	**92,573**	195,351
	195,252	290,723

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 7.15% to 7.73% (31 December 2012: 7.15% to 7.73%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Amounts payable under finance leases				
Within one year	**113,749**	113,749	**102,679**	95,372
In more than one year but not more than two years	**75,094**	113,749	**71,037**	102,680
In more than two years but not more than five years	**22,081**	97,182	**21,536**	92,671
	210,925	324,680	**195,252**	290,723
Less: future finance charges	**(15,672)**	(33,957)	**N/A**	N/A
Present value of lease obligations	**195,252**	290,723	**195,252**	290,723
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(102,679)**	(95,372)
Amount due for settlement after 12 months			**92,573**	195,351

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets as stated in Note 16.

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 for the purchase of certain equipment RMB'000	Government grant related to land use rights RMB'000	Total RMB'000
At 1 January 2012	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
Released to income	(686)	(1,514)	(167)	(2,367)
At 31 December 2013	**2,374**	**18,574**	**4,248**	**25,196**

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

	2013 RMB'000	2012 RMB'000
Current portion	**2,367**	2,103
Non-current portion	**22,829**	25,460
	25,196	27,563

35. DERIVATIVE FINANCIAL INSTRUMENTS

	2013 RMB'000	2012 RMB'000
Liabilities		
Foreign currency forward contracts (note i)	**1,149**	259

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes:

(i) The Group entered into arrangements with the Bank of China in the PRC that the Group borrowed one year United States Dollar ("US$") loans from the related bank branch for settlement of its US$ 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 bank branch as security against the US$ loans, and (b) entered into non-delivery forward contracts with the bank branch 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 2013, the US$ loans of RMB29,020,000 (31 December 2012: RMB9,074,000) and fixed deposits denominated in Renminbi of RMB30,030,000 (31 December 2012: RMB9,560,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the year ended 31 December 2013, interest income on the fixed deposits of RMB1,481,000 (31 December 2012: RMB136,000), exchange gain on US$ loans of RMB1,314,000 (31 December 2012: RMB153,000) are included in profit or loss, while the interest expenses on US$ loans of RMB1,711,000 (31 December 2012: RMB71,000) 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
2013		
US$4,533,859.20	From March 2013 to April 2014	Buy US$/sell RMB at 6.0491 to 6.0538
2012		
US$1,443,638.39	From July 2012 to July 2013	Buy US$/sell RMB at 6.3918 to 6.4753

At 31 December 2013, the fair value of the Company's foreign currency forward contracts was estimated to be a financial liability of RMB1,149,000 (31 December 2012: RMB259,000). 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 loss on change in fair value of the foreign currency forward contracts amounting to RMB890,000 (year ended 31 December 2012: gain on change in fair value of RMB106,000) has been recognised in the profit or loss for the year.

The US$ loans is fixed interest rate from 1.43% to 1.62% (2012: 3.25%) per annum as at 31 December 2013.

36. DISCOUNTED BILL FINANCING

	2013 **RMB'000**	2012 RMB'000
Discounted bill financing	**1,671,026**	1,870,699
Comprising:		
Discounted bill receivable from third party (Note 15)	**11,443**	255,199
Discounted bill receivable from subsidiaries of the Company (Note 26)	**1,659,583**	1,615,500
Total	**1,671,026**	1,870,699

36. DISCOUNTED BILL FINANCING (continued)

Discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse. Bank deposits of RMB849,750,000 (2012: RMB971,000,000) were pledged by the subsidiaries to the banks for bank bills issued.

37. BANK BORROWINGS

	2013 RMB'000	2012 RMB'000
Secured bank borrowings	2,548,816	2,926,490
Unsecured bank borrowings	457,851	85,918
	3,006,667	3,012,408
The borrowings are repayable as follows:		
Within one year	2,831,940	2,355,939
In the second year	159,485	524,328
In the third to fifth year inclusive	15,242	132,141
	3,006,667	3,012,408
Less: Amount due for settlement within one year and shown under current liabilities	(2,831,940)	(2,355,939)
Amount due after one year	174,727	656,469
Total borrowings		
— At fixed rates	903,510	1,423,994
— At floating rates	2,103,157	1,588,414
	3,006,667	3,012,408
Analysis of borrowings by currency:		
— Denominated in RMB	2,757,852	2,653,528
— Denominated in US$	178,057	212,936
— Denominated in Hong Kong dollar ("HK$")	70,758	145,944
	3,006,667	3,012,408

37. BANK BORROWINGS (continued)

Fixed-rate borrowings are charged at the rates ranging from 1.4% to 9.0% per annum as at 31 December 2013 (2012: 2% to 9% 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 (2012: 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") (2012: 4.5%).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2013 was 6.83% per annum (2012: 6.80% per annum).

Included in the new loans obtained during the year ended 31 December 2012, a loan of RMB200,000,000 was borrowed from a trust company for one year at an effective interest rate of 7.87% per annum. The loan was guaranteed by an independent third party (the "Guarantor"). The Group, simultaneously, granted a short-term loan of RMB50,000,000 to the Guarantor. This loan borrowing was repaid during the year 2013 and the guarantee was released accordingly.

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 45.

38. OTHER BORROWINGS

	2013 **RMB'000**	2012 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 a floating rate 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 2013 was 6.42% per annum (2012: 6.46% per annum).

39. SHORT-TERM FINANCING NOTES

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 nominal 5.65% per annum and with an effective interest rate of 6.05% per annum.

40. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2012, 31 December 2012 and 31 December 2013	1,000,000,000	100,000

	Number of shares	**Share capital**	
			Shown in the consolidated financial statements
		RMB'000	HK$'000
Issued and fully paid:			
At 1 January 2012, 31 December 2012 and 31 December 2013	802,588,000	80,258	72,351

41. 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 2013, 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 in the year 2012.

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.

42. 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 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

42. 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 HK$ per shares	Number of options
At 1 January 2012	1.505	2,400,000
Expired during the year		(800,000)
At 31 December 2012	1.505	1,600,000
Expired during the year		(800,000)
Forfeited upon the resignation during the year		(800,000)
At 31 December 2013	**1.505**	**Nil**
Exercisable at 31 December 2013		**Nil**

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 RMB65,000 for the year ended 31 December 2013 (2012: RMB219,000) in relation to share options granted by the Company.

43. 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, 38 and 39 and equity attributable to owner of the Company, comprising issued share capital and reserves.

The Directors 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.

44. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables	**3,052,920**	2,451,001
Financial liabilities		
Liabilities at amortised cost	**5,706,326**	5,484,774
Obligation under finance lease	**195,252**	290,723
Derivative financial instruments	**1,149**	259

(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:

	2013 RMB'000	2012 RMB'000
Assets		
US$		
Bank balances and cash	**23,749**	40,944
Trade receivables	**34,420**	634
HK$		
Bank balances and cash	**1,804**	2,652
Other receivables	**–**	279
EURO		
Bank balances and cash	**30,408**	728

44. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) *Foreign currency risk management* (continued)

	2013 RMB'000	2012 RMB'000
Liabilities		
US$		
Trade payables	**171,661**	75,149
Bank borrowings	**178,057**	212,936
HK$		
Bank borrowings	**70,758**	145,944

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	
	2013 RMB'000 (a)	2012 RMB'000 (a)	2013 RMB'000 (b)	2012 RMB'000 (b)	2013 RMB'000 (c)	2012 RMB'000 (c)
Increase (decrease) in post-tax profit for the year	**10,933**	9,244	**2,586**	5,363	**(1,140)**	(27)

44. 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 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 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, short-term financing notes and discounted bill financing subject to negotiation on annual basis (see Notes 36, 37 and 39 for details). 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 year 2012 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), 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 (See Note 28) 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 25 basis points (2012: 25 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 25 basis points (2012: 25 basis points) and all other variables were held constant, the Group's post-tax profit would decrease (increase) by approximately RMB1,538,000 for the year ended 31 December 2013 (2012: RMB1,056,000).

44. 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 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 2013, the Group had net current liabilities of approximately RMB2,369,813,000 (2012: 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 31 December 2013. The management considers using bank and other borrowings as a significant source of finance of the Group. Substantial portion of the facility lines will expire during the year 2014. The management believes that they can successfully renew these facilities lines based on their experience in the previous years.

As mentioned in Note 52(2), a subsidiary has obtained the approval from National Development and Reform Commission (中華人民共和國國家發展和改革委員會) on 8 February 2014 with respect to the issuance of the corporate bond with principal amount of RMB500 million for the 7 years term. Also the management considers that certain banks agreed to extend one year for certain bank borrowings amounting to RMB650,000,000 originally with the expiration dates in the year 2014 (See Note 52(1)).

44. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

Taking into account the present available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks), and internal financial resources of the Group, the Group has 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.

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.

44. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

	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 2013									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	7.14	–	724,780	218,410	–	–	–	943,190	903,510
Variable-rate bank borrowings (*)	6.70	–	1,479,637	370,376	236,611	76,480	–	2,163,104	2,103,157
Other borrowings	6.42	–	431	14,431	–	–	–	14,862	14,000
Bills payables		–	152,157	–	–	–	–	152,157	152,157
Trade payables		84,633	432,837	–	–	–	–	517,470	517,470
Other payables		38,080	–	–	–	–	–	38,080	38,080
Payable for construction work		6,927	–	–	–	–	–	6,927	6,927
Discounted bill financing		–	1,671,026	–	–	–	–	1,671,026	1,671,026
Obligations under finance leases	7.48	–	56,875	56,875	75,094	22,082	–	210,925	195,252
Short term financing notes	5.65	–	301,413	–	–	–	–	301,413	300,000
		129,640	4,819,154	660,091	311,705	98,562	–	6,019,152	5,901,578
Derivatives — net settlement									
Foreign exchange forward contracts		–	1,149	–	–	–	–	1,149	1,149
		–	1,149	–	–	–	–	1,149	1,149
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

* Subsequent to the year ended 31 December 2013, certain PRC banks agreed to extend the Group's RMB650,000,000 bank borrowings' expiration dates (originally to be repaid in year 2014) for one year (See Note 52(1))

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.

44. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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 RMB11,443,000 (2012: RMB255,199,000) will be offset with corresponding bills receivable upon maturity.

(e) Fair value measurements

Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis are set out below.

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	31/12/2013	31/12/2012		
Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	Foreign currency forward contracts: RMB1,149,000.	Foreign currency forward contracts: RMB259,000.	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties

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

45. 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:

	2013 RMB'000	2012 RMB'000
Buildings	130,523	123,245
Plant, machinery and equipment	907,964	933,831
Prepaid lease payments	140,049	102,671
Trade receivables	230,000	348,000
Bills receivable	11,443	255,199
Restricted bank deposits	1,230,308	1,162,368
	2,650,287	2,925,314

46. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	80,991	142,064

47. OPERATING LEASES

The Group as lessee

	2013 RMB'000	2012 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	1,894	2,274

47. OPERATING LEASES (continued)

The Group as lessee (continued)

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:

	2013 RMB'000	2012 RMB'000
Within one year	**242**	374
In the second to fifth year inclusive	**462**	578
	704	952

The Group as lessor

Property rental income earned during the year was RMB6,819,000 (2012: RMB4,912,000). 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:

	2013 RMB'000	2012 RMB'000
Within one year	**6,759**	5,291
In the second to fifth year inclusive	**22,084**	18,718
After five years	**10,524**	11,845
	39,367	35,854

48. RELATED PARTY TRANSACTIONS

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

	2013 RMB'000	2012 RMB'000
Sales of electricity and stream to a non-controlling shareholder of a subsidiary	**99,297**	121,486
Interest income earned from a joint venture (Note 8(iii))	**17,693**	—

48. RELATED PARTY TRANSACTIONS (continued)

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

Notes:

Besides the transaction disclosed above, the Company purchased certain wood pulp on behalf of Sunshine Oji as an agent and then sold it for RMB72,446,000 to Sunshine Oji for its business activities in 2013.

As disclosed in Note 16(iv), Century Sunshine disposed production facilities and equipment for a consideration amounting to RMB175,950,000 to Sunshine Oji during the current period.

(b) Balances with related parties

	2013 RMB'000	2012 RMB'000
Trade receivable from (*) a non-controlling shareholder of a subsidiary	**7,839**	9,699
Other receivables from a joint venture (**)		
Receivables from the disposal of buildings, equipment and land used right	**76,480**	—
Receivables from the trial run operation financing	**146,828**	—
Interest receivable	**17,693**	—
	241,001	—

* The balance will be collected within 12 months from the end of the reporting period.

** The balance will be collected after 12 months from the end of the reporting period.

(c) Compensation of key management personnel

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

	2013 RMB'000	2012 RMB'000
Short term employee benefit	**4,212**	4,719
Retirement benefit scheme contributions	**32**	22
Equity-settled share-based payment	**65**	219
	4,309	4,960

49. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

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

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

50. DISPOSAL OF A SUBSIDIARY

On 15 March 2013, the Group entered into an equity transfer agreement with a third party for the disposal of Kunshan Sunshine, a wholly owned subsidiary of the Group. The disposal was completed on 30 November 2013, on which the date control of Kunshan Sunshine passed to the acquirer. The net assets of Kunshan Sunshine at the date of disposal were as follows:

	Year ended 2013 RMB'000
Consideration received:	
Cash received	1,060
Bank acceptance notes	2,900
Deferred cash consideration (Note 27)	9,840
Total consideration received	13,800

	30 November 2013 RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	8,471
Prepaid lease payment	1,272
Trade and other receivables	56
Bank balances and cash	2
Net assets disposed of	8,303

50. DISPOSAL OF A SUBSIDIARY (continued)

	Year ended 2013 RMB'000
Gain on disposal of a subsidiary:	
Consideration received and receivable	13,800
Net assets disposed of Kunshan Sunshine*	8,303
Gain on disposal (Note 8)	5,497

* Goodwill related to this subsidiary has been fully impaired before year 2012

	Year ended 2013 RMB'000
Net cash inflow arising on disposal	
Cash consideration received	1,060
Less: bank balances and cash disposed of	(2)
	1,058

The deferred consideration will be settled in cash and bank acceptance notes by the purchaser during the year 2014.

51. PARTICULARS OF SUBSIDIARIES

51.1 General information 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 and operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest and voting right held by the Company 2013	2012	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) (Note vi)	Sino-foreign equity joint venture	PRC	US$2,495,000	Nil	100.00%	Manufacture of paper products

51. PARTICULARS OF SUBSIDIARIES (continued)

51.1 General information of subsidiaries (continued)

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 and voting right held by the Company 2013	2012	Principal activity
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%	100.00%	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
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
昆山陽光華邁包裝製品有限公司 (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%	100.00%	Waste materials trading
北京華紙時代傳媒有限公司 (Beijing Huazhi Times Media Co., Ltd.) (Note v)	Private limited company	PRC	RMB6,000,000	55.00%	Nil	Advertising
上海彩虹概念包裝有限公司 (Shanghai Rainbow Concept Packing Co., Ltd.) (Note v)	Private limited company	PRC	RMB5,000,000	100.00%	Nil	Package design.

51. PARTICULARS OF SUBSIDIARIES (continued)

51.1 General information of subsidiaries (continued)

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.

(v) Newly established during the year ended 31 December 2013.

(vi) During the year, the Group fully disposed of its interest in Kunshan Sunshine (see Note 50 for more details).

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

51.2 Details of a non-wholly owned subsidiary that has material non-controlling interest

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of Subsidiary	place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2013 %	31/12/2012 %	**31/12/2013 RMB'000**	31/12/2012 RMB'000	**31/12/2013 RMB'000**	31/12/2012 RMB'000
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.)	PRC	**20**	20	**5,464**	10,476	**89,447**	83,983
Individually immaterial subsidiary with non-controlling interest						**4,041**	1,340
						93,488	85,323

昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.) ("Changle Shengshi") is a private limited company established and located in PRC. The Group has 80% ownership interest in Changle Shengshi, which gives the Group the same percentage of voting rights in Changle Shengshi.

51. PARTICULARS OF SUBSIDIARIES (continued)

51.2 Details of a non-wholly owned subsidiary that has material non-controlling interest (continued)

Financial information in respect of Changle Shengshi is set out below.

	2013 RMB'000	2012 RMB'000
Current assets	**521,091**	1,066,974
Non-current assets	**450,142**	482,747
Current liabilities	**(541,367)**	(1,146,627)
Non-current liabilities	**(3,609)**	(4,159)
Equity attributable to owners of the Company	**341,006**	319,148
Non-controlling interests (at book value)	**85,251**	79,787

	2013 RMB'000	2012 RMB'000
Revenue	**518,185**	664,166
Expenses	**490,864**	611,784
Profit for the year	**27,321**	52,382
Profit attributable to owners of the Company	**21,857**	41,906
Profit attributable to the non-controlling interests	**5,464**	10,476
Profit for the year	**27,321**	52,382
Other comprehensive income attributable to owners of the Company	**—**	—
Other comprehensive income attributable to the non-controlling interests	**—**	—
Other comprehensive income for the year	**—**	—
Total comprehensive income attributable to owners of the Company	**21,857**	41,906
Total comprehensive income attributable to the non-controlling interests	**5,464**	10,476
Total comprehensive income for the year	**27,321**	52,382

51. PARTICULARS OF SUBSIDIARIES (continued)

51.2 Details of a non-wholly owned subsidiary that has material non-controlling interest (continued)

	2013 RMB'000	2012 RMB'000
Net cash inflow (outflow) from operating activities	541,743	(316,808)
Net cash inflow (outflow) from investing activities	(32,645)	20,753
Net cash inflow (outflow) from financing activities	(513,970)	300,564
Net cash inflow (outflow)	(4,872)	4,509

52. EVENTS AFTER THE END OF THE REPORTING PERIOD

(1) Subsequent to the year ended 31 December 2013, certain PRC banks agreed to extend the Group's RMB650,000,000 bank borrowings' expiration dates for one year when they fall due in year 2014.

(2) On 8 February, Century Sunshine has obtained the approval from National Development and Reform Commission (中華人民共和國國家發展和改革委員會) 2014 with respect to the proposed issuance of the corporate bond of Century Sunshine. The proposed principal amount is RMB 500 million for a term of seven years and should be issued within 12 months from the date of issue of the notification of acceptance. The corporate bond is to be issued with a floating rate of 4.1 percentage point over Shanghai Interbank Offered Rate per annum.

(3) On 16 January 2014, Century Sunshine has issued another RMB300 million one-year term short term financing note and replaced the first tranche of RMB300 million which expired in January 2014.

53. 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:

	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	–	2
Investments in subsidiaries	462,824	462,824
Amount due from subsidiaries	618,965	611,646
	1,081,789	1,074,472
CURRENT ASSETS		
Prepayments and other receivables	270	279
Amount due from subsidiaries	9,996	9,173
Bank balances and cash	1,666	2,880
	11,932	12,332
CURRENT LIABILITIES		
Amounts due to subsidiaries	22,564	22,564
	22,564	22,564
NET CURRENT LIABILITIES	(10,632)	(10,232)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,071,157	1,064,240
CAPITAL AND RESERVES		
Share capital	72,351	72,351
Reserves	998,806	991,889
TOTAL EQUITY	1,071,157	1,064,240

53. 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 2012	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 42)	—	—	—	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
Profit and total comprehensive income for the year	—	—	—	—	6,852	6,852
Dividend declared	—	—	—	—	—	—
Recognition of equity-settled share-based payments (note 42)	—	—	—	65	—	65
Transfer upon expiry of share options	—	—	—	(427)	427	—
At 31 December 2013	**72,351**	**695,682**	**283,277**	**—**	**19,847**	**1,071,157**

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Results					
Revenue	**3,657,671**	3,704,180	3,721,189	2,456,540	1,697,678
Profit before taxation	**38,945**	71,495	115,697	202,768	58,289
Taxation	**(11,425)**	(16,929)	(27,188)	(28,446)	(10,826)
Minority interests	**(5,465)**	(10,583)	(6,107)	(4,708)	(5,316)
Profit attributable to shareholders	**22,055**	43,983	82,402	169,614	42,147
Assets					
Non-current assets	**4,280,860**	3,938,264	3,634,046	3,516,555	2,016,307
Current assets	**3,325,826**	3,539,284	3,344,158	2,898,617	1,851,289
Total assets	**7,606,686**	7,477,548	6,978,204	6,415,172	3,867,596
Liabilities					
Non-current liabilities	**310,937**	897,467	1,031,030	1,269,745	645,909
Current liabilities	**5,695,639**	5,010,256	4,432,813	3,700,682	1,951,650
Total liabilities	**6,006,576**	5,907,723	5,463,843	4,970,427	2,597,559
Equity and reserves					
Total equity	**1,600,110**	1,569,825	1,514,361	1,444,745	1,270,037
Minority interests	**(93,488)**	(85,323)	(73,155)	(53,987)	(41,876)
Equity attributable to owners of the Company	**1,506,622**	1,484,502	1,441,206	1,390,758	1,228,161