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 2014

*For identification purposes only

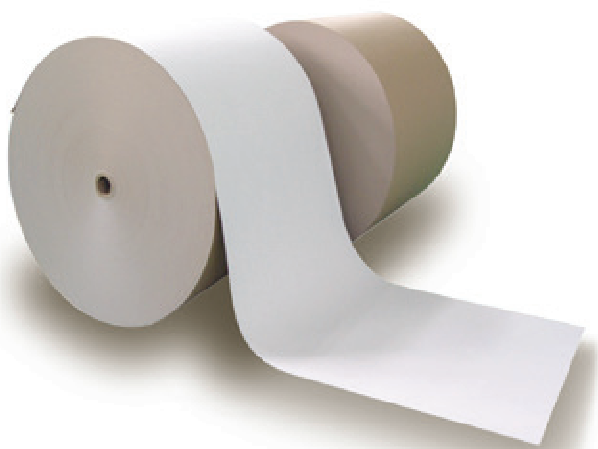
Contents

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

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

AUTHORISED REPRESENTATIVES

Mr. Wang Dongxing
Mr. Chan Yee Ping, Michael

PRINCIPAL PLACE OF BUSINESS IN CHINA

Changle Economic Development Zone
Weifang 262400
Shandong
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 801 & 803, 8/F.
Beverly House
93–107 Lockhart 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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Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Sunshine Paper Holdings Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of our Group for the financial year ended 31 December 2014 ("FY2014").

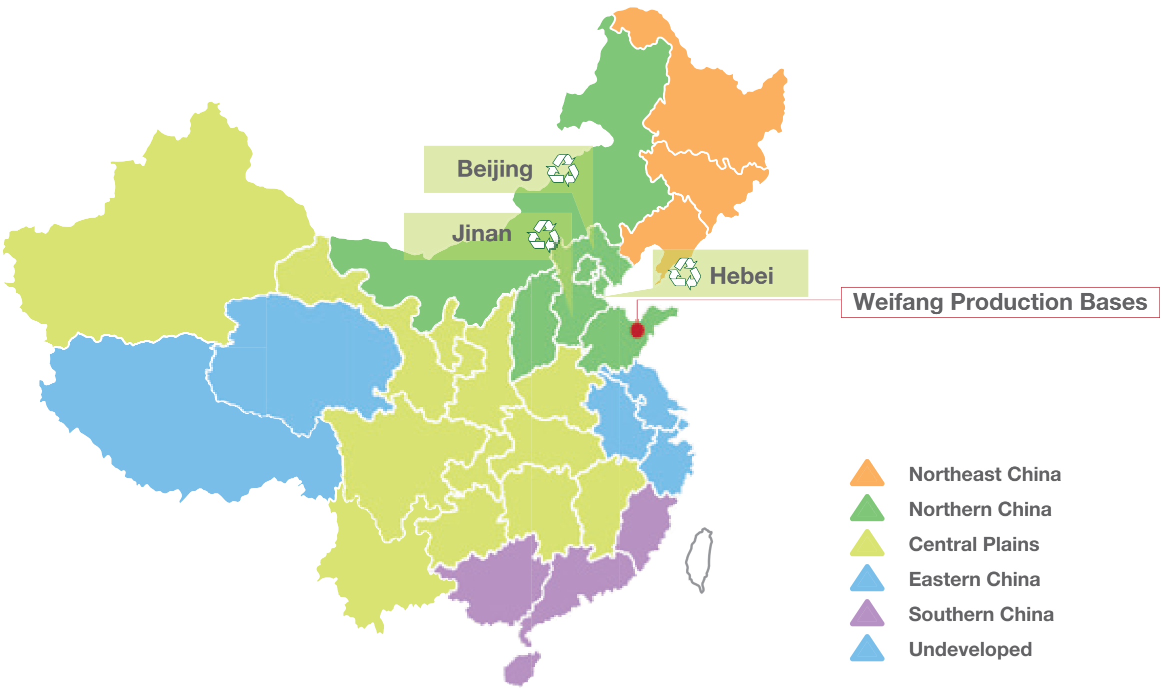
OPERATION REVIEW

With the world economy continuing to struggle and suppressed market demand of paper products, we experienced escalating competition in the paper industry in the People's Republic of China (the "PRC") in 2014. However, upon careful analysis of the economic conditions and the development trend of the industry, both domestic and abroad, by our Group, and through various measures taken for stabilising the production and expanding the market, the Group's operation remained in good shape. For the financial year ended 31 December 2014, we sold approximately 1.0 million tonnes of paper products and the balance between the level of production and sale of the Group remained intact.

The paper industry in the PRC has been taken onto a new stage of transformation and upgrade during 2014. On one hand, certain paper products were hampered by over-capacity and subdued pricing. On the other hand, our Group managed to achieve and maintain the quality assurance of our products and significantly reduced our production cost, through innovation in production technique, rationalisation of our raw material cost structure as well as reinforcement in control over the manufacturing process. For the year ended 31 December 2014, our gross profit margin stood at 19.0%, representing an increase of 2.5 percentage points as compared to that of 16.5% for the corresponding period of last year.

Our Group completed the issuance of a 7-year bond of RMB500 million in 2014, which was instrumental to both the optimisation of resource allocation and enhancement of debt structure, and consequently beneficial to our long-term development. In relation to corporate social responsibility, our Group had proactively implemented the State's policies and requirements on environmental protection. Our input of resources to this area had increased to ensure new requirements on environmental protection could be met.

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



OUTLOOK

The foundation for the world economy to stage a revival remains shaky and uncertain in 2015. Having said that, we believe there will still be a moderate growth in demand for packaging paper from both the domestic and international markets in the long run. Moreover, as regulations on environmental protection become more stringent, the process of elimination of inefficient production capacity will be intensified, thereby harmonising the supply-demand relationship in the paper product market, which in turn would be beneficial to the stronger players in the industry for maintaining their competitive edges.

Our pre-printed production lines, the operation of which are submissive to the "transformation and upgrade" concept, will strive to take on the supportive role for efficiency realization of our Group through ongoing innovation in marketing approach and methodology formulated for extending effort in marketing in both domestic and overseas markets. Meanwhile, we will endeavour to further optimise our supply chain management, raise our operation efficiency and reduce our logistics cost. We will also look up to pursue reinforcement of our internal management control, innovation in production technique, enhancement in our production process and realignment of raw material structure to lower the production cost. Last but not least, we will work diligently for continuous and full compliance of all legislations on environmental protection and due performance of corporate social responsibility, so that every aspect in our operation will exceed the required standards set by the State's authorities.

Finally, on behalf of the Board, I would like to thank our shareholders for their continuous support. We will strive to create greater value for our stakeholders over the long run.

Wang Dongxing
Chairman

Shanghai, China
27 March 2015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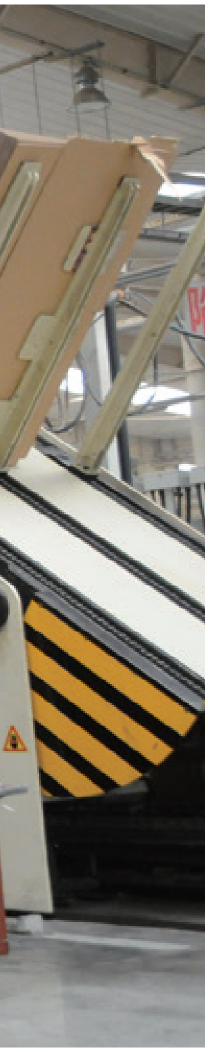
Management Discussion and Analysis



Management Discussion and Analysis

TOTAL REVENUE

Our Group's total revenue recorded a slight decrease of approximately 5.7%, from RMB3,657.7 million for the year ended 31 December 2013 ("FY2013") to RMB3,447.6 million for the year ended 31 December 2014 ("FY2014"). Sales of paper products have accounted for substantially all of our Group's total revenue, while the remaining portion of our Group's total revenue represented sales of electricity and steam. Notwithstanding there was an accelerating number of eliminated inefficient production capacities in China due to more stringent environmental policies, our Group still faced intense market competition amid the economy slow down in China. As a result, the average selling price (the "ASP") and sales volumes of our paper products for FY2014 both recorded a low single digit decrease as compared to that for FY2013.

The following table sets forth our Group's total revenue by different business segments:

	FY2014 RMB'000	%	FY2013 RMB'000	%
Sales of paper products				
White top linerboard	993,444	28.8	1,106,745	30.2
Light-coated linerboard	1,500,397	43.5	1,550,987	42.4
Core board	454,866	13.2	477,929	13.1
Specialized paper products	325,730	9.5	387,092	10.6
Subtotal of sales of paper products	3,274,437	95.0	3,522,753	96.3
Sales of electricity and steam	173,180	5.0	134,918	3.7
	3,447,617	100.0	3,657,671	100.0

COST OF SALES

Our cost of sales decreased by approximately RMB262.6 million or 8.6%, from RMB3,054.2 million for FY2013 to RMB2,791.6 million for FY2014. The decrease in cost of sales of approximately 8.6% was higher than the decrease in our total revenue of approximately 5.7%. It reflected, to a large extent, our proactive efforts in lowering the unit production cost of paper products by implementing cost control over raw materials and production overhead to improve our profitability.

With respect to the costs of our paper products segment, domestic recovered paper, overseas recovered paper, and kraft pulp accounted for approximately 30.7%, 22.3% and 12.7%, respectively, of our cost of sales for FY2014.

Chemicals and additives consumed accounted for approximately 11.8% of the cost of sales. Manufacturing overhead costs accounted for approximately 20.7% of the cost of sales, of which depreciation, electricity and steam represented majority of manufacturing overhead costs. The remaining 1.8% of cost of sales represented labour cost.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors discussed in the paragraph headed “Cost of sales” above, we were able to record an increase in both gross profit and gross profit margin, from RMB603.5 million and 16.5%, respectively, for FY2013, to RMB656.0 million and 19.0%, respectively, for FY2014.

OTHER PROFIT AND LOSS ITEMS

Other income of RMB79.2 million for FY2014 (FY2013: RMB117.8 million) mainly comprised interest income of RMB59.1 million (FY2013: RMB46.0 million), rental income from investment properties and other properties of RMB6.3 million (FY2013: RMB6.8 million), and government grants of RMB10.0 million. The decrease in other income mainly represented the decrease in government grants from RMB54.7 million for FY2013 to RMB10.0 million for FY2014.

Distribution and selling expenses, primarily consisted of transportation cost and staff costs, recorded a decrease from RMB256.2 million for FY2013 to RMB246.9 million for FY2014. As a percentage of total revenue, it was approximately 7.2% for FY2014, which was comparable to 7.0% in FY2013.

Administrative expenses recorded a slight increase from RMB155.1 million for FY2013 to RMB156.4 million for FY2014. As a percentage of total revenue, it was approximately 4.5% for FY2014, which was comparable to 4.2% for FY2013.

Change in fair value of investment property of RMB2.6 million (FY2013: RMB4.7 million) represented the revaluation gain arising from two investment properties located in the PRC.

We shared the loss of a joint venture, the principal activities of which were manufacture and sales of decorative papers, of RMB4.5 million for FY2014 (FY2013: Share of profit of RMB0.4 million).

Finance costs increased by approximately 12.2%, from RMB307.4 million for FY2013 to RMB344.9 million for FY2014. The increase mainly reflected the increase in interest expenses on the short-term financing notes and the seven-year corporate bonds issued by the Group.

INCOME TAX EXPENSES

Income tax expenses increased from RMB11.4 million for FY2013 to RMB14.3 million for FY2014. Income tax expenses mainly represented the deferred tax charges and the PRC enterprise income tax paid by a subsidiary, whose principal activity is sales of electricity and steam.

(LOSS)/PROFIT FOR THE YEAR

As a result of the factors discussed above, we recorded a loss for the year attributable to the owners of our Company of RMB38.0 million for FY2014 (FY2013: Profit for the year attributable to the owners of our Company of RMB22.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

Treasury policy

We utilize internally generated operating cash flow and credit facilities provided by our principal bankers to finance most of our working capital and capital expenditure requirements, and bank borrowings repayment. We have issued the second tranche of short-term financing notes of RMB300.0 million and the seven-year corporate bond of RMB500.0 million during FY2014 to improve our liquidity position and to optimize our debt structure.

In addition, it is our Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During FY2013 and FY2014, our Group continued to adopt a conservative approach to financial risk management.

Market risks

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, as 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

As at 31 December 2014, we had bank balances and cash, and restricted bank deposits, of approximately RMB1,876.8 million, representing an increase of RMB179.6 million as compared with that of RMB1,697.2 million as at 31 December 2013.

Inventories recorded an increase from RMB285.5 million as at 31 December 2013 to RMB381.5 million as at 31 December 2014. The increase in inventories mainly reflected the increase in finished goods for growing demand of packaging paper in early 2014. Inventory turnover was 44 days for FY2014, which was lower than that of 56 days for FY2013.

Trade receivables increased from RMB360.5 million as at 31 December 2013 to RMB390.4 million as at 31 December 2014. Trade receivables turnover for FY2014 was 40 days, which was generally in line with 30 to 45 days credit period given to our customers and comparable to that of 38 days for FY2013.

Trade payables were RMB636.3 million as at 31 December 2014, as compared to RMB517.5 million as at 31 December 2013. Trade payable turnover for FY2014 was 75 days, as compared to that of 55 days for FY2013.

As at 31 December 2014, we recorded net current liabilities of RMB2,192.5 million (as at 31 December 2013: RMB2,369.8 million). The current ratio was 0.61 times and 0.58 times, respectively, as at 31 December 2014 and 2013.

Cashflow

We recorded net cash inflows from operating activities of RMB810.7 million for FY2014 (FY2013: RMB774.0 million). Net cash used in investing activities increased by RMB355.8 million, mainly representing the increase in restricted bank deposits, from RMB276.4 million for FY2013 to RMB609.9 million for FY2014. Net cash used in financing activities increased from RMB311.4 million for FY2013 to RMB365.6 million for FY2014. The increase primarily reflected that our Group utilized available cash to repay bank borrowings aiming to lower the debt level. The combined effect of the above resulted in a net decrease of cash and cash equivalents of RMB164.8 million for FY2014 (FY2013: Net increase of cash and cash equivalents of RMB208.5 million).

Gearing

Our net gearing ratio was 71.8% as at 31 December 2014, representing an improvement as compared to 112.8% as at 31 December 2013.

Capital expenditure

During FY2014, our capital expenditure was approximately RMB332.7 million, which mainly related to the upgrade of our plant and machinery, and the construction of ancillary facilities.

Pledge of assets

As at 31 December 2014, the aggregate carrying amount of our assets pledged was approximately RMB3,068.2 million. (As at 31 December 2013: RMB2,650.3 million). In addition, an investment property of RMB191,859,000 has been used for a counter-guarantee arrangement with 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation) who provided guarantee for the corporate bond issued during FY2014.

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 RMB53.7 million as at 31 December 2014. (31 December 2013: RMB81.0 million).

As at 31 December 2014, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 2,800 full-time employees in the PRC and Hong Kong as at 31 December 2014. The staff costs for FY2014 was approximately RMB161.0 million, representing an increase of RMB23.9 million over FY2013 of approximately RMB137.1 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 employees' 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.

Subsequent Events

Subsequent to the year ended 31 December 2014, certain PRC banks agreed to extend the Group's RMB632,500,000 bank borrowings' expiration dates for one year when they fall due in year 2015.

Notes to financial ratios

(1) *Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365 days*

(2) *Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant year and multiplied by 365 days*

(3) *Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days*

(4) *Current ratio equals current assets divided by current liabilities as of the end of the year*

(5) *Net gearing ratio equals total of borrowings, short-term financing notes, corporate bond and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by total equity as of the end of the year*

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 the Corporate Governance Code and Corporate Governance Report (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during FY2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 FY2014.

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 FY2014 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
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 and Senior Management" 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. Ci Xiaolei, Mr. Wang Junfeng and Mr. Wang Zefeng will retire from office at the forthcoming annual general meeting of our Company to be held on 28 May 2015 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 FY2014 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 FY2014, our Company held a total of four Board meetings and one annual general meeting. The attendance records of each member of the Board at Board meetings and general meeting are set out in the following table:

Director	Board meetings attendance/held	General meeting attendance/held
Executive Directors		
Mr. Wang Dongxing	4/4	1/1
Mr. Shi Weixin	4/4	1/1
Mr. Ci Xiaolei	4/4	1/1
Mr. Zhang Zengguo	4/4	1/1
Non-executive Directors		
Mr. Wang Junfeng	4/4	1/1
Mr. Zhang Licong	4/4	1/1
Independent Non-executive Directors		
Mr. Leung Ping Shing	4/4	1/1
Mr. Wang Zefeng	4/4	1/1
Ms. Jiao Jie(1)	4/4	1/1
Mr. Xu Ye(2)	N/A	N/A

Notes:

(1) Ms. Jiao Jie was appointed as an independent non-executive Director on 27 January 2014. Four Board meetings and one general meeting were held from 27 January 2014 to 31 December 2014.

(2) Mr. Xu Ye resigned as an independent non-executive Director on 27 January 2014. No Board meeting or general meeting was held from 1 January 2014 to 26 January 2014.

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 FY2014:

Director	Type of training attended
Executive Directors	
Mr. Wang Dongxing	A
Mr. Shi Weixin	A
Mr. Ci Xiaolei	A
Mr. Zhang Zengguo	A
Non-executive Directors	
Mr. Wang Junfeng	A
Mr. Zhang Licong	A
Independent Non-executive Directors	
Mr. Leung Ping Shing	A
Mr. Wang Zefeng	A
Ms. Jiao Jie(1)	A
Mr. Xu Ye(2)	N/A

Legends:

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

Notes:

(1) Ms. Jiao Jie was appointed as an Independent Non-executive Director on 27 January 2014.

(2) Mr. Xu Ye resigned as an independent non-executive Director on 27 January 2014.

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 "Report of the Directors — Directors — Directors' service contracts" on page 41 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 the period from 1 January 2014 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 FY2014, our audit committee held two meetings to review our annual results for FY2013 and interim results for the six months ended 30 June 2014, 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 FY2014, our remuneration committee held one meeting to determine the policy for the remuneration of our executive Directors and assess performance of our executive Directors.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2014 is set out below:

Remuneration bands	number of persons
Nil to RMB500,000	6

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 the period from 1 January 2014 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 FY2014, 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 2015.

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 FY2014, 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 FY2014.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during FY2014. The attendance records of each member of our audit committee, remuneration committee and nomination committee are set out in the following table:

Director	Audit committee attendance/held	Remuneration committee attendance/held	Nomination committee attendance/held
Executive Directors			
Mr. Wang Dongxing	–	1/1	1/1
Mr. Shi Weixin	–	–	–
Mr. Ci Xiaolei	–	–	–
Mr. Zhang Zengguo	–	–	–
Non-executive Directors			
Mr. Wang Junfeng	–	–	–
Mr. Zhang Licong	–	–	–
Independent non-executive Directors			
Mr. Leung Ping Shing	2/2	1/1	1/1
Mr. Wang Zefeng	2/2	1/1	1/1
Ms. Jiao Jie (appointed on 27 January 2014)	2/2	1/1	1/1
Mr. Xu Ye (resigned on 27 January 2014)	N/A	N/A	N/A

No meeting was held for our audit committee, remuneration committee and nomination committee from 1 January 2014 to 26 January 2014.

COMPANY SECRETARY

For FY2014, in accordance with Rule 3.29 of the Listing Rules, Mr. Chan Yee Ping, Michael, the company secretary of our Company, 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 FY2014, 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 ("Century Sunshine"), the principal operating subsidiary of our Group for FY2014. As such, our Company has complied with CG Code in respect of the appointment of chairman and chief executive.

AUDITORS' REMUNERATION

For the FY2014, 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 RMB1.2 million and RMB0.5 million, 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 FY2014, 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 FY2014 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 FY2014, 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 pages 49 to 50 of this annual report.

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 FY2014.

Report of the Audit Committee

MEMBERS

The audit committee of our Company consists of three independent non-executive Directors. During the period from 1 January 2014 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 2014, 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 FY2014 and all members at the relevant time have attended such meetings.

The following is a summary of the tasks completed by the audit committee during FY2014 and up to the date of this report:

- reviewed the consolidated financial statements for FY2013 and FY2014;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2014;
- reviewed the external auditor's audit plan, letter of representation and audit engagement letter for FY2014;
- considered and approved the external audit fees for FY2014;
- reviewed our Company's internal control systems; and
- reviewed the "Connected Transactions" set out on pages 47 to 48 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 2015.

For FY2014, the fee paid or payable to the external auditor of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.2 million and RMB0.5 million, respectively.

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	
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 52, 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 58, 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 39, 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 49, 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 41, is a non-executive Director and he joined our Group in May 2009. Mr. Wang was appointed as a Director on 26 May 2009. 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. 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. He obtained a Bachelor's degree majoring in Chemistry in Lanzhou University (蘭州大學) in 1995 and an MBA degree majoring in finance from McMaster University of Canada in 2004.

Mr. Zhang Licong, aged 37, is a non-executive Director and he joined our Group in July 2013. Mr. Zhang was appointed as a Director on 16 July 2013. He is currently an executive Director and an investment director of China Everbright Investments Management Limited. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Ping Shing, aged 56, 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 20 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 54, 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. He is currently the principal of Shandong Papermaking Industry Research and Design Institute. He is also the vice chairman of Shandong Paper Manufacturing Industry Association, Shandong Light Industry Machinery Association and Shandong Packaging Printing Association. He previously served as the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group.

Ms. Jiao Jie, aged 34, is an independent non-executive Director. 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 the vice president of iClick Interactive Asia Limited, and is responsible for corporate finance and legal affairs. Prior to that, she was 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) from March 2012 to May 2014. 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 42, 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 46, 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 43, 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 58, 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 44, 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 52, 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 44, 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.

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael, aged 38, 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's 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 currently also serves as an independent non-executive director of China Renji Medical Group Ltd (Stock Code: 648) and China Sandi Holdings Limited (Stock Code: 910), all being companies listed on the Main Board of the Stock Exchange of Hong Kong Limited.

Report of the Directors

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for FY2014.

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 FY2014 are set out in the consolidated financial statements on page 51.

DIVIDEND

The Board has not recommended the payment of a final dividend for FY2014 (FY2013: Nil).

An interim dividend of HK1 cent (FY2013: Nil) for ordinary share was paid on 30 September 2014.

RESERVES

Details of the change in reserves of our Group for FY2014 are set out in the consolidated financial statements on page 54.

DONATIONS

Our Group had no donation for charitable purpose during FY2014 (2013: RMB1.3 million).

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 FY2014 are set out in notes 15 and 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of our Company during FY2014 are set out in note 39 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of our Group for the last five financial years is set out on page 126.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 50 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of our Group are set out in note 35 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY2014, 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 FY2014 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

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. Ci Xiaolei, Mr. Wang Junfeng and Mr. Wang Zefeng will retire from office at the forthcoming annual general meeting of our Company to be held on 28 May 2015, 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/her independence during the year ended 31 December 2014 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 on 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 Xiaolei has signed a service contract dated 24 May 2012 with our Company for a term of three years commencing on 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 on 12 December 2013, 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 on 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 he has agreed to act as an independent non-executive Director for a period of three years, commencing on 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 on 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 on 27 January 2014, unless terminated in accordance with the terms and conditions specified in such letter.

Details of directors' emolument for each of our Directors for FY2014 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 2014, 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 2014, 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 2014.

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 2014	Granted during the year	Exercised during the year	Expired during the year	As at 31 December 2014	Exercise period
8 April 2010	An employee	800,000	—	—	(800,000)	—	(i)

(i) 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.

CORPORATE GOVERNANCE

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 47 to the consolidated financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Our Group has entered into two agreements on 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 2014, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB68.5 million, which was below the annual cap of RMB134.7 million for the year ended 31 December 2014.

(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 2014, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB42.7 million, which was below the annual cap of RMB78.8 million for the year ended 31 December 2014.

Pursuant to Rule 14A.56 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 2014 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

Shanghai, China

27 March 2015

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 125 which comprise the consolidated statement of financial position as at 31 December 2014, 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 2014, 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicate that the Group had net current liabilities of approximately RMB2,192,508,000 as at 31 December 2014. The validity of the going concern assumption on which the consolidated financial statements have been prepared is dependent on sufficient bank facilities available for the Group's working capital purposes. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation of assets that may be necessary if the Group is unable to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Revenue	6&7	**3,447,617**	3,657,671
Cost of sales		**(2,791,568)**	(3,054,188)
Gross profit		**656,049**	603,483
Other income	8	**79,162**	117,718
Other gains and losses	8	**(2,037)**	31,367
Distribution and selling expenses		**(246,913)**	(256,154)
Administrative expenses		**(156,362)**	(155,080)
Change in fair value of investment properties	16	**2,560**	4,651
Share of (loss)/profit of a joint venture	27	**(4,524)**	402
Finance costs	9	**(344,856)**	(307,442)
(Loss)/profit before tax		**(16,921)**	38,945
Income tax expense	11	**(14,348)**	(11,425)
(Loss)/profit and total comprehensive income for the year	12	**(31,269)**	27,520
(Loss)/profit and total comprehensive income for the year attributable to:			
Owners of the Company		**(37,966)**	22,055
Non-controlling interests		**6,697**	5,465
		(31,269)	27,520
(Losses)/earnings per share	14		
— Basic (RMB)		**(0.05)**	0.03
— Diluted (RMB)		**N/A**	0.03

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,462,148**	3,348,739
Investment properties	16	**248,939**	246,379
Prepaid lease payments	17	**260,737**	254,680
Goodwill	18	**18,692**	18,692
Deferred tax assets	19	**6,837**	9,148
Interest in a joint venture	27	**106,638**	111,162
Deposits and other receivables	20	**307,938**	292,060
		4,411,929	4,280,860
Current assets			
Prepaid lease payments	17	**6,734**	7,632
Inventories	21	**381,476**	285,521
Trade receivables	22	**390,380**	360,495
Bills receivable	23	**559,934**	687,163
Prepayments and other receivables	25	**262,411**	281,034
Income tax recoverable		**7,758**	6,739
Derivative financial instruments	33	**75**	—
Restricted bank deposits	26	**1,574,633**	1,230,308
Bank balances and cash	26	**302,127**	466,934
		3,485,528	3,325,826
Current liabilities			
Trade payables	28	**636,294**	517,470
Bills payable	29	**320,000**	152,157
Other payables	30	**144,363**	95,473
Payable for construction work, machinery and equipment		**29,227**	6,927
Income tax payable		**1,399**	451
Obligations under finance leases — current portion	31	**91,080**	102,679
Deferred income — current portion	32	**3,005**	2,367
Derivative financial instruments	33	**—**	1,149
Discounted bill financing	34	**2,158,282**	1,671,026
Bank borrowings — due within one year	35	**1,937,886**	2,831,940
Other borrowings	36	**56,500**	14,000
Short-term financing notes	37	**300,000**	300,000
		5,678,036	5,695,639
Net current liabilities		**(2,192,508)**	(2,369,813)
Total assets less current liabilities		**2,219,421**	1,911,047

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Capital and reserves			
Share capital	39	**72,351**	72,351
Reserves	40	**1,389,914**	1,434,271
Equity attributable to owners of the Company		**1,462,265**	1,506,622
Non-controlling interests		**100,185**	93,488
Total equity		**1,562,450**	1,600,110
Non-current liabilities			
Obligations under finance leases — non-current portion	31	**104,949**	92,573
Bank borrowings — due after one year	35	**15,298**	174,727
Corporate bond	38	**493,156**	—
Deferred income — non-current portion	32	**22,635**	22,829
Deferred tax liabilities	19	**20,933**	20,808
		656,971	310,937
Total equity and non-current liabilities		**2,219,421**	1,911,047

The consolidated financial statements on pages 51 to 125 were approved by the board of directors on 27 March 2015 and are signed on its behalf by:

Wang Dongxing
DIRECTOR

Ci Xiaolei
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital	Capital redemption reserve	Share premium	Merger reserve	Capital reserve	Share options reserve	Assets revaluation reserve	Statutory surplus reserve	Discretionary surplus reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (note 41)	RMB'000 (note 41)	RMB'000	RMB'000 (note 41)	RMB'000 (note 41)	RMB'000 (note 41)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	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**
(Loss)/Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37,966)**	**(37,966)**	**6,697**	**(31,269)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37,966)**	**(37,966)**	**6,697**	**(31,269)**
Dividend paid to owners of the Company (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,391)**	**(6,391)**	**–**	**(6,391)**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,076**	**–**	**(3,076)**	**–**	**–**	**–**
At 31 December 2014	**72,351**	**610**	**695,682**	**(2,776)**	**79,992**	**–**	**19,806**	**78,451**	**5,429**	**512,720**	**1,462,265**	**100,185**	**1,562,450**

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
Operating activities		
(Losses)/profit before tax	**(16,921)**	38,945
Adjustments for:		
Interest income	**(59,108)**	(45,984)
Finance costs	**344,856**	307,442
Depreciation of property, plant and equipment	**213,985**	196,210
Release of prepaid lease payments	**6,734**	7,632
Loss on disposal of property, plant and equipment	**3,329**	773
Gain on disposal of assets classified as held for sale	**–**	(7,360)
Release of deferred income	**(2,056)**	(2,367)
Expense recognised in profit or loss in respect of equity-settled share-based payment	**–**	65
Loss/(gain) on fair value changes of derivative financial instruments	**(1,224)**	890
Gain on fair value changes of investment properties	**(2,560)**	(4,651)
Increase in bad debt allowance	**2,819**	3,551
Gain on disposal of subsidiary	**–**	(5,497)
Share of profit of a joint venture	**4,524**	(402)
Operating cash flows before movements in working capital	**494,378**	489,247
(Increase)/decrease in inventories	**(95,955)**	370,975
(Increase)/decrease in trade receivables	**(32,704)**	28,410
Decrease/(increase) in bills receivable	**127,229**	(155,696)
Decrease/(increase) in prepayments and other receivables	**34,052**	(100,716)
Increase in trade payables	**118,824**	108,868
Increase in bills payable	**167,843**	62,157
Increase/(decrease) in other payables	**9,055**	(15,725)
Cash generated from operations	**822,722**	787,520
Income tax paid	**(11,983)**	(13,543)
Net cash generated from operating activities	**810,739**	773,977

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
Investing activities		
Interest received	35,677	26,811
Proceeds from disposal of property, plant and equipment	1,984	15,559
Proceeds from disposal of held for sale assets	—	99,470
Collection of the loan receivable	—	50,000
Proceeds from disposal of a subsidiary (Note 49)	9,840	1,058
Government grants received	2,500	—
Cash paid for the establishment of a joint venture	—	(18,270)
Purchase of property, plant and equipment	(293,017)	(360,750)
Increase in restricted bank deposits	(344,325)	(67,940)
Prepaid lease payments for the acquisition of land use rights	(7,893)	—
Guarantee deposits for finance leases	(14,684)	—
Net cash used in investing activities	(609,918)	(254,062)
Financing activities		
Interest paid	(342,632)	(311,757)
Repayment of borrowing	(4,030,101)	(3,190,230)
Repayment of obligations under finance lease	(102,003)	(95,471)
Repayment of short-term financing notes	(300,000)	—
Net proceeds from issue of short-term financing notes	298,800	298,800
Net proceeds from issuance of the seven-year corporate bonds	492,500	—
New bank borrowings raised	2,976,979	3,184,259
New other borrowings raised	42,500	—
Net proceeds from sale and finance lease back transactions	117,464	—
Increase/(decrease) in discounted bill financing	487,256	(199,673)
Dividend paid to owners of the Company	(6,391)	—
Capital contribution by non-controlling shareholders of subsidiaries	—	2,700
Net cash used in financing activities	(365,628)	(311,372)
Net (decrease)/increase in cash and cash equivalents	(164,807)	208,543
Cash and cash equivalents at beginning of the year	466,934	258,391
Cash and cash equivalents at end of the year, representing bank balances and cash	302,127	466,934

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) 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 has net current liabilities of approximately RMB2,192,508,000 as at 31 December 2014. This condition may cast significant doubt on the Group's ability to continue as a going concern. The directors of the Company (the "Directors") have evaluated the relevant available information and key assumptions (see Note 5 for more details) used in the cash flow projections for the twelve months since the balance sheet date. In addition, although most of the existing bank facilities will expire in 2015, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional borrowing facilities as necessary. Therefore, the Directors are of the opinion that the Group has sufficient borrowing facilities (including discounted bills financing, short-term bank borrowings, and the seven-year corporate bonds as disclosed in Note 38 to the consolidated financial statements) for its working capital purposes. Accordingly, 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 IFRS 10, IFRS 12 and IAS 27	Investment Entities;
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities;
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting;
IFRIC 21	Levies;

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.

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

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

IFRIC 21 Levies

The Group has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[4]
Amendments to IAS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2017.
3 Effective for annual periods beginning on or after 1 July 2014.
4 Effective for annual periods beginning on or after 1 January 2016.
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

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.

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

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

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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 are 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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 HKAS 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.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

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

IFRS 9 Financial Instruments (continued)

- 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 application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in Note 43.

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

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;

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

- 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture (continued)

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.

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).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale (continued)

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including bank and other borrowings, discounted bill financing, trade payables, bills payable, 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 2014. 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 2015, and have concluded that the use of going concern basis for preparation of the consolidated financial statements for the year 2014 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 2014, the carrying amount of inventories is approximately RMB381,476,000 (2013: RMB285,521,000) (See Note 21 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 2014, the aggregate carrying amount of trade, bills, and other receivables is approximately RMB1,100,632,000 (2013: RMB1,221,549,000). Details of movements of allowance for doubtful receivables are disclosed in Note 22.

Deferred tax assets

As at 31 December 2014, deferred tax assets of RMB6,837,000 (31 December 2013: RMB9,148,000) in relation to tax losses and temporary differences set out in Note 19 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 RMB76,872,000 (2013: RMB711,000) 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 (see Note 19 for more details).

Useful lives and residual values of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 15. This estimate is based on the historical experience of the actual residual values 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 values 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 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 2014

	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	**993,444**	**1,500,397**	**454,866**	**325,730**	**173,180**	**3,447,617**
Inter-segment revenue	**—**	**—**	**—**	**—**	**324,161**	**324,161**
Segment revenue	**993,444**	**1,500,397**	**454,866**	**325,730**	**497,341**	**3,771,778**
Segment profit	**178,509**	**292,445**	**78,204**	**77,597**	**45,503**	**672,258**

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

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, 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:

	2014 RMB'000	2013 RMB'000
Profit		
Segment profit	**672,258**	612,620
Unrealised profit on inter-segment sales	**(57,105)**	(55,110)
	615,153	557,510
Distribution and selling expenses	**(246,913)**	(256,154)
Administrative expenses	**(140,149)**	(139,545)
Other income	**69,239**	114,386
Other gains and losses	**832**	27,347
Finance costs	**(313,119)**	(269,652)
Change in fair value of investment properties	**2,560**	4,651
Share of (loss)/profit of a joint venture	**(4,524)**	402
Consolidated (loss)/profit before taxation	**(16,921)**	38,945

Depreciation of property, plant and equipment and release of prepaid lease payments, finance cost and interest income amounted to RMB46,572,000 (2013: RMB45,541,000), RMB31,636,000 (2013: RMB37,790,000), and RMB2,764,000 (2013: RMB1,727,000) 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 payments, finance cost and interest income to the relevant paper product segments in the internal segment analysis as this information is not necessary.

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

	2014 RMB'000	2013 RMB'000
Other income:		
Interest income on:		
Interest income on bank deposits	**36,292**	28,023
Interest income from the balance with a joint venture (Note i)	**22,816**	17,693
Interest income from loan receivable	**—**	268
Total Interest Income	**59,108**	45,984
Rental income from investment properties and other properties	**6,336**	6,819
Government grants (Notes ii & iii)	**10,031**	54,718
Write off/waive of certain payables from suppliers	**418**	7,501
Insurance premium refunded	**3,269**	2,696
	79,162	117,718
Other gains or losses:		
Net foreign exchange (loss)/gain	**(5,609)**	15,475
Gain from sale of scrap materials, net	**2,353**	4,135
Gain on disposal of a subsidiary (Note 49)	**—**	5,497
Loss on disposal of property, plant and equipment	**(3,329)**	(773)
Gain on disposal of assets classified as held for sale	**—**	7,360
Change in the fair value of derivative financial instrument	**1,224**	(890)
Impairment loss of trade receivables	**(2,819)**	(3,551)
Others	**6,143**	4,114
	(2,037)	31,367

Notes:

i. During the year ended 31 December 2014, 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") at 30% over the prevailing bank lending rates announced by the People's Bank of China , which was 6.83% per annum (2013:6.85% per annum).

ii. During the year ended 31 December 2014, 昌樂昌東廢紙收購有限責任公司 (Changle Changdong Waste Paper Recovery Co., Ltd) ("Changdong Paper Recovery") obtained unconditional government subsidy of approximately RMB6,765,600 (2013: RMB26,048,000) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

iii. During the year ended 31 December 2014, 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 and received unconditional government subsidy of approximately RMB1,420,000 (2013: RMB24,881,000) from local government for the purpose of supporting its operation.

9. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest expenses on:		
Discounted bill financing	**129,996**	83,345
Bank and other borrowings wholly repayable within five years	**168,981**	196,536
Finance leases	**13,396**	18,285
Short-term financing notes	**23,862**	16,668
Corporate bond	**26,011**	—
	362,246	314,834
Less: Interest capitalised in construction in progress	**(17,390)**	(7,392)
	344,856	307,442

Borrowing costs capitalised during the year ended 31 December 2014 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.60% (2013: 6.83%) per annum to expenditure on construction in progress.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of emoluments paid or payable by the Group to the Directors 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
2014					
Executive directors:					
Wang Dongxing	50	267	—	399	716
Shi Weixin	50	—	—	—	50
Zhang Zengguo	50	170	11	227	458
Ci Xiaolei	50	180	11	265	506
Non-executive directors:					
Wang Junfeng	50	—	—	—	50
Zhang, Licong	50	—	—	—	50
Independent non-executive directors:					
Leung Ping Shing	95	—	—	—	95
Wang Zefeng	50	—	—	—	50
Jiao Jie (Note iii)	50	—	—	—	50
	495	617	22	891	2,025

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

Notes:

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

ii. Mr. Zhang Licong has been appointed as a non-executive director with effect from 16 July 2013.

iii. Ms. Jiao Jie has been appointed as an independent non-executive director with effect from 27 January 2014.

iv. Mr. Xu Ye has resigned as an independent non-executive director with effect from 27 January 2014.

Employees

The five highest paid individuals of the Group during the year, including 3 Directors (2013: 3 Directors), details of their emoluments are set out above. The emoluments of the remaining 2 (2013: 2) individuals during the year are as follows:

	2014 RMB'000	2013 RMB'000
Salaries and other allowances	**684**	974
Retirement benefits schemes contributions	**22**	9
Equity-settled share-based payment	**—**	65
	706	1,048

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees (continued)

The above employees' emoluments were within the following band:

	Number of individuals	
	2014	2013
Nil to HK$1,000,000	**2**	2

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

	2014 RMB'000	2013 RMB'000
Current tax		
PRC enterprise income tax	**11,912**	10,702
Over provision in previous year	**–**	(1,362)
Deferred tax charge (Note 19)	**2,436**	2,085
	14,348	11,425

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 those disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2013: 25%).

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 approval status of Advanced Technology Enterprise, pursuant to which Century Sunshine was entitled to enterprise income tax rate of 15% for three years from 2013 to 2015.

In 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, Changle Numat was entitled to enterprise income tax rate of 15% for three years from 2013 to 2015.

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2014 and 2013 as the Group did not have any assessable profit subject to Hong Kong Profits Tax during both years.

11. INCOME TAX EXPENSE (continued)

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

	2014 RMB'000	2013 RMB'000
(Loss)/profit before tax	(16,921)	38,945
Tax at the applicable income tax rate of 25% (2013: 25%)	(4,230)	9,736
Tax effect of expenses not deductible	2,149	2,901
Tax effect of profit from transaction with a joint venture	—	2,760
Tax effect of share of result of a joint venture	1,131	(100)
Effect of tax concession granted to certain subsidiaries	(1,988)	(1,296)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries (Note (a))	—	143
Over provision in previous year	—	(1,362)
Reversal of deferred tax asset previous recognised	2,631	—
Utilisation of tax losses previously not recognised	—	(1,357)
Tax effect of tax losses not recognised	14,655	—
Tax charge for the year	14,348	11,425

Note:

(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 19.

12. (LOSS)/PROFIT FOR THE YEAR

	2014 RMB'000	2013 RMB'000
(Loss)/profit for the year has been arrived at after charging (crediting):		
Wages and salaries	140,638	120,227
Retirement benefits schemes contributions	20,348	16,846
Equity-settled share-based payment	—	65
Total staff costs (including the Directors' emoluments)	160,986	137,138
Cost of inventories recognised as an expense	2,657,637	3,022,884
Depreciation of property, plant and equipment	213,985	196,210
Impairment losses on trade receivables	2,819	3,551
Release of prepaid lease payments	6,734	7,632
Auditor's remuneration	2,007	2,371
Net foreign exchange gain/(loss)	5,609	(15,475)
Rental income from investment properties and other properties	(6,336)	(6,819)
Direct operating expenses incurred for investment properties generated rental income during the year	63	52

13. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividends recognised as distributions during the year:		
2014 interim, paid — HK$0.01 (equivalent to approximately RMB0.008) per share (2013: Nil)	**6,391**	—

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: Nil).

14. 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

	2014 RMB'000	2013 RMB'000
(Losses)/earnings for the purposes of basic and diluted earnings per share ((loss)/profit for the year attributable to owners of the Company)	**(37,966)**	22,055

Number of shares

	2014 '000	2013 '000
Number of ordinary shares for the purpose of basic earnings per share	**802,588**	802,588
Effect of dilutive potential ordinary shares:		
Share options	**N/A**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	802,588

No diluted losses per share is presented for the year ended 31 December 2014, because there is no outstanding share options to be considered, which were forfeited upon the related employee's resignation in the second half year of 2013.

The computation of diluted earnings per share for the year ended 31 December 2013 does not assume the exercise of share options as the exercise price is higher than the average market price per share for the year ended 31 December 2013.

15. 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 2013	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 (Note 49)	(10,046)	—	—	(10,046)
Disposals	—	(36,600)	—	(36,600)
At 31 December 2013	820,214	3,172,483	146,380	4,139,077
Additions	2,575	50,922	279,210	332,707
Transfers	6,693	9,607	(16,300)	—
Disposals	—	(9,380)	—	(9,380)
At 31 December 2014	**829,482**	**3,223,632**	**409,290**	**4,462,404**
DEPRECIATION				
At 1 January 2013	91,648	524,323	—	615,971
Provided for the year	22,944	173,266	—	196,210
Eliminated on disposal of a subsidiary (Note 49)	(1,575)	—	—	(1,575)
Eliminated on disposals	—	(20,268)	—	(20,268)
At 31 December 2013	113,017	677,321	—	790,338
Provided for the year	27,601	186,384	—	213,985
Eliminated on disposals	—	(4,067)	—	(4,067)
At 31 December 2014	**140,618**	**859,638**	**—**	**1,000,256**
CARRYING AMOUNT				
At 31 December 2014	**688,864**	**2,363,994**	**409,290**	**3,462,148**
At 31 December 2013	707,197	2,495,162	146,380	3,348,739

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(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:

	Useful Lives	Residual Values
Buildings	20 — 40	2.5%–5%
Plant and machinery, and equipment	5 — 18	5.56%–20%

(ii) The net book value of property, plant and equipment includes an amount of RMB497,249,000 (31 December 2013: RMB420,690,000) in respect of assets held under finance leases.

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

16. INVESTMENT PROPERTIES

	Completed investment properties RMB'000
FAIR VALUE	
At 1 January 2013	241,728
Net increase in fair value recognised in profit or loss	4,651
At 31 December 2013	246,379
Net increase in fair value recognised in profit or loss	2,560
At 31 December 2014	248,939

The Group's investment properties are commercial purpose units located in the PRC, which were remeasured using significant unobservable inputs 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 as at 31 December 2014. 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 RMB2,560,000 has been recognised directly in profit or loss for the year ended 31 December 2014 (year ended 31 December 2013: RMB4,651,000).

The investment property located in Weifang, Shandong, the PRC with a fair value of RMB191,859,000 as at 31 December 2014 is pledged for counter guarantee under the guarantee agreement of the corporate bonds entered by the Group and 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation) (the "SME Guarantee").

16. INVESTMENT PROPERTIES (continued)

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table provides the information of fair value measurement of the Group's investment properties:

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	Comparison Approach The key inputs is: (1) Market unit sales rate; (2) Location markdown;	Market unit sales rate, using market direct comparable at RMB5,600-5,800/sq.m. Location markdown, based on location and other individual adjustment factors at 1%-6%.	The increase in the market unit sales rate would result in a increase in fair value. 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: (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 4.5%. Reversionary yield, taking into account annual unit market rental income and unit market value of the comparable properties, of 5.0% Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB1.05 sq.m./day to RMB1.8sq.m./day.	The increase in the term yield would result in a decrease in fair value. The increase in the reversionary yield would result in a decrease in fair value. 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%. Reversionary yield, taking into account annual unit market rental income and unit market value of the comparable properties, of 8% Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB0.50 sq.m./day to RMB0.52sq.m./day.	The increase in the term yield would result in a decrease in fair value. The increase in the reversionary yield would result in a decrease in fair value. 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.

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

At the end of the reporting period, the Group is in the process of obtaining the building certificate for one (2013: one) investment property in Kunshan. 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.

17. PREPAID LEASE PAYMENTS

	2014 **RMB'000**	2013 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**260,737**	254,680
Current assets	**6,734**	7,632
	267,471	262,312

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

At the end of the reporting period, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB49,288,000 (2013: RMB42,240,000). 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 44.

18. GOODWILL

	2014 **RMB'000**	2013 RMB'000
COST		
At beginning of the year	**18,692**	19,246
Derecognised on disposal of a subsidiary	**–**	(554)
At end of the year	**18,692**	18,692
IMPAIRMENT		
At beginning and end of the year	**–**	554
Derecognised on disposal of a subsidiary	**–**	(554)
At end of the year	**–**	–
CARRYING AMOUNT		
At end of the year	**18,692**	18,692

For the purposes of impairment testing, goodwill as at 31 December 2014 has been allocated to an individual cash generating unit (CGU) of a subsidiary in electricity and steam segment.

18. GOODWILL (continued)

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

The recoverable amount of above 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 13.05% (2013: 11.55%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 3% (2013: 3%). 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.

19. DEFERRED TAXATION

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

Deferred tax assets

	Unrealised profit in inventories RMB'000	Allowance for doubtful debts and inventories RMB'000	Deferred income RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2013	4,027	13	4,615	1,581	10,236
Credited (charged) to profit or loss (Note 11)	(3,113)	533	(369)	1,352	(1,597)
At 31 December 2013	914	546	4,246	2,933	8,639
Credited (charged) to profit or loss (Note 11)	439	421	(31)	(2,631)	(1,802)
At 31 December 2014	**1,353**	**967**	**4,215**	**302**	**6,837**

19. DEFERRED TAXATION (continued)

Deferred tax liabilities

	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 2013	(5,130)	39	(9,712)	(5,008)	(19,811)
Credited (charged) to profit or loss (Note 11)	220	133	(698)	(143)	(488)
At 31 December 2013	(4,910)	172	(10,410)	(5,151)	(20,299)
Credited (charged) to profit or loss (Note 11)	220	(183)	(671)	—	(634)
At 31 December 2014	**(4,690)**	**(11)**	**(11,081)**	**(5,151)**	**(20,933)**

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

	2014 RMB'000	2013 RMB'000
Deferred tax assets	**6,837**	9,148
Deferred tax liabilities	**(20,933)**	(20,808)
	(14,096)	(11,660)

Unrecognised deductible unused tax losses:

	2014 RMB'000	2013 RMB'000
Deductible tax losses	**78,884**	20,264
Less: available for offset future profit	**2,012**	19,553
Unused tax losses for which no deferred tax assets have been recognised	**76,872**	711

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.

19. DEFERRED TAXATION (continued)

Deferred tax liabilities (continued)

Tax losses unrecognised will expire in:

	2014 RMB'000	2013 RMB'000
2017	64	64
2018	18,188	647
2019	58,619	—
	76,872	711

20. DEPOSITS AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Due from a joint venture (Note 47)	254,323	241,001
Guarantee deposits for finance leases	51,150	39,254
Deposit for acquisition of property, plant and equipment	2,465	11,805
	307,938	292,060

21. INVENTORIES

	2014 RMB'000	2013 RMB'000
Raw materials	204,856	196,207
Finished goods	176,620	89,314
	381,476	285,521

Details of inventories pledged are set out in Note 44.

22. TRADE RECEIVABLES

An analysis of trade receivables is as follows:

	2014 RMB'000	2013 RMB'000
Trade receivables due from:		
— Third parties	**379,164**	352,656
— Related parties (Note 47(b))	**11,216**	7,839
	390,380	360,495

Included in the balance of trade receivables above, approximately RMB74,270,000 at 31 December 2014 (2013: RMB230,000,000) was pledged to banks to secure banking facilities granted to the Group (see Note 44).

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

	2014 RMB'000	2013 RMB'000
0–30 days	**293,943**	259,950
31–90 days	**70,123**	64,590
91–365 days	**23,108**	30,954
Over 1 year	**3,206**	5,002
	390,380	360,495

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 RMB44,738,000 (2013: RMB50,549,000) 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.

22. TRADE RECEIVABLES (continued)

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

	2014 **RMB'000**	2013 RMB'000
31–90 days	**18,424**	14,593
91–365 days	**23,108**	30,954
Over 1 year	**3,206**	5,002
	44,738	50,549

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:

	2014 **RMB'000**	2013 RMB'000
At the beginning of the year	**3,629**	78
Provided during the year	**2,819**	3,551
At the end of the year	**6,448**	3,629

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.

23. BILLS RECEIVABLE

	2014 **RMB'000**	2013 RMB'000
Bills receivable	**559,934**	687,163

During the year, the Group has discounted bills receivable of RMB192,540,000 (2013: RMB11,443,000) (Note 24) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as discounted bill financing (see Notes 24 and 34).

23. BILLS RECEIVABLE (continued)

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

	2014 RMB'000	2013 RMB'000
0–90 days	**326,288**	427,683
91–180 days	**215,466**	259,480
181-365 days	**18,180**	—
	559,934	687,163

24. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2014 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.

	2014 RMB'000	2013 RMB'000
Carrying amount of transferred assets (Note 34)	**192,540**	11,443
Carrying amount of associated liabilities	**(192,540)**	(11,443)
Net position	**–**	—

In addition, bills receivable issued among subsidiaries of the Group for intra-group transactions amounting to RMB1,965,742,000 as at 31 December 2014 (2013: RMB1,659,583,000) have been discounted with full recourse to secure bank borrowings amounting to RMB1,965,742,000 (2013: RMB1,659,583,000) and these bills receivable have been eliminated in the consolidated financial statements (see Note 34).

The Group has transferred bills receivables amounted to RMB490,312,000 (2013: RMB504,446,000) to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognised 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.

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 RMB490,312,000 (2013: RMB504,446,000).

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

25. PREPAYMENTS AND OTHER RECEIVABLES

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

	2014 RMB'000	2013 RMB'000
Prepayments to suppliers	**112,093**	107,143
Other receivables	**150,318**	173,891
	262,411	281,034

An analysis of other receivables is as follows:

	2014 RMB'000	2013 RMB'000
VAT recoverable	**129,626**	136,286
Deposits	**5,590**	4,502
Advance to employees	**1,098**	2,619
VAT refund as a government subsidy	**802**	8,826
Consideration to be received from disposal of a subsidiary (Note 49)	**–**	9,840
Others	**13,202**	11,818
	150,318	173,891

26. 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, finance leases and short-term bank borrowings granted to the Group.

The restricted bank deposits carry interest at market rates which range from 0.35% to 2.55% (2013: 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 2014 (2013: 0.35% per annum).

Bank balances and cash at 31 December 2014 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.

27. INTEREST IN A JOINT VENTURE

	2014 RMB'000	2013 RMB'000
Cost of investment in a joint venture		
Unlisted	**121,800**	121,800
Share of post-acquisition profits and other comprehensive income	**(4,674)**	402
Recognition of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**552**	—
	117,678	122,202
Less: effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(11,040)**	(11,040)
	106,638	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
			2014 %	2013 %	**2014 %**	2013 %	
Sunshine Oji	Limited incorporated	PRC	**60**	60	**60**	60	Special paper production

* Pursuant to the joint venture agreement of Sunshine Oji, Sunshine Oji has been owned as to 60% by Century Sunshine and 40% by Oji F-Tex Co, a wholly owned subsidiary of Oji Holdings Corporation not connected to the Group. 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 account for Sunshine Oji as a joint venture.

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.

27. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of Sunshine Oji (continued)

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

	2014 RMB'000	2013 RMB'000
Current asset	**217,262**	149,747
Non-current asset	**354,515**	342,990
Current liabilities	**(376,567)**	(289,068)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**45,475**	6,632
Current financial liabilities (excluding trade and other payables and provisions)	**–**	–
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–

	2014 RMB'000	2013(*) RMB'000
Revenue	**346,438**	116,834
(Loss)/profit and total comprehensive income for the year	**(8,459)**	669
The above (loss)/profit for the year include the following:		
Depreciation and amortisation	**10,296**	1,775
Interest income	**(101)**	(6)
Interest expense	**21,480**	2,654
Income tax expense	**1,270**	223

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

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

	2014 RMB'000	2013 RMB'000
Net assets of Sunshine Oji	**195,210**	203,669
Proportion of the Group's ownership interest in Sunshine Oji	**117,126**	112,202
Less: effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(10,488)**	(11,040)
Carrying amount of the Group's interest in Sunshine Oji	**106,638**	111,162

28. TRADE PAYABLES

An analysis of trade payables is as follows:

	2014 RMB'000	2013 RMB'000
Trade payables to third parties	**636,294**	517,470

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:

	2014 RMB'000	2013 RMB'000
0–90 days	**543,197**	433,568
91–365 days	**84,366**	61,613
Over 1 year	**8,731**	22,289
	636,294	517,470

29. BILLS PAYABLE

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

	2014 RMB'000	2013 RMB'000
0–90 days	**262,000**	83,457
91–180 days	**58,000**	68,700
	320,000	152,157

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

30. OTHER PAYABLES

An analysis of other payables is as follows:

	2014 RMB'000	2013 RMB'000
Other payables due to:		
— Third parties	**144,363**	95,473

	2014 RMB'000	2013 RMB'000
Other payables	**52,736**	36,714
Advance from customers	**46,124**	48,498
VAT and other tax payable	**24,756**	8,506
Interest payable of corporate bond	**20,475**	—
Other interest payable	**251**	1,366
Accrued payroll and welfare	**21**	389
	144,363	95,473

31. 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.

	2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**91,080**	102,679
Non-current liabilities	**104,949**	92,573
	196,029	195,252

31. OBLIGATIONS UNDER FINANCE LEASE (continued)

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 6.80% to 7.73% (31 December 2013: 7.15% to 7.73%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Amounts payable under finance leases				
Within one year	**101,169**	113,749	**91,080**	102,679
In more than one year but not more than two years	**49,943**	75,094	**44,762**	71,037
In more than two years but not more than five years	**64,989**	22,081	**60,187**	21,536
	216,101	210,924	**196,029**	195,252
Less: future finance charges	**(20,072)**	(15,672)	**—**	—
Present value of lease obligations (Note 43(d))	**196,029**	195,252	**196,029**	195,252
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(91,080)**	(102,679)
Amount due for settlement after 12 months			**104,949**	92,573

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets as stated in Note 15(ii).

32. 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	Government grant related to certain equipment RMB'000	Total RMB'000
At 1 January 2013	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
Addition	—	—	—	2,500	2,500
Released to income	(508)	(1,512)	(36)	—	(2,056)
At 31 December 2014	**1,866**	**17,062**	**4,212**	**2,500**	**25,640**

32. DEFERRED INCOME (continued)

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

	2014 RMB'000	2013 RMB'000
Current portion	3,005	2,367
Non-current portion	22,635	22,829
	25,640	25,196

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 RMB'000	2013 RMB'000
Assets		
Foreign currency forward contracts (note i)	75	—
Liabilities		
Foreign currency forward contracts (note i)	–	1,149

Note:

(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 2014, the US$ loans of RMB4,524,000 (31 December 2013: RMB29,020,000) and fixed deposits denominated in Renminbi of RMB4,500,000 (31 December 2013: RMB30,030,000) under such Arrangements were included in bank borrowings and restricted bank deposits respectively.

During the year ended 31 December 2014, interest income on the fixed deposits of RMB615,000 (31 December 2013: RMB1,481,000), exchange loss on US$ loans of RMB939,000 (31 December 2013: exchange loss on US$ loans of RMB1,314,000) are included in profit or loss, while the interest expenses on US$ loans of RMB254,000 (31 December 2013: RMB1,711,000) 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
2014		
US$716,975.54	From January 2014 to September 2015	Buy US$/sell RMB at 6.0491 to 6.0538
2013		
US$4,533,859.20	From March 2013 to April 2014	Buy US$/sell RMB at 6.1859 to 6.3473

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Note: (continued)

(i) (continued)

At 31 December 2014, the fair value of the Company's foreign currency forward contracts was estimated to be a financial asset of RMB75,000 (31 December 2013 financial liability: RMB1,149,000). The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were determined with reference to prices quoted by financial institution at the end of the reporting period. The gain on change in fair value of the foreign currency forward contracts amounting to RMB1,223,000 (the loss at year ended 31 December 2013: RMB890,000) has been recognised in the profit or loss for the year.

The US$ loans is fixed interest rate from 2.38% to 2.58% (2013: 1.43% to 1.62%) per annum as at 31 December 2014.

34. DISCOUNTED BILL FINANCING

	2014 **RMB'000**	2013 RMB'000
Discounted bill financing	**2,158,282**	1,671,026
Comprising:		
Discounted bill receivable from third party (Note 24)	**192,540**	11,443
Discounted bill receivable from subsidiaries of the Company (Note 24)	**1,965,742**	1,659,583
Total	**2,158,282**	1,671,026

Discounted bill financing represents the amount of cash received on the discounted bills receivable to banks with full recourse. Bank deposits of RMB1,253,350,000 (2013: RMB849,750,000) were pledged by the subsidiaries to the banks for bank bills issued.

35. BANK BORROWINGS

	2014 RMB'000	2013 RMB'000
Secured bank borrowings	**1,441,530**	2,548,816
Unsecured bank borrowings	**511,654**	457,851
	1,953,184	3,006,667
The borrowings are repayable as follows:		
Within one year	**1,937,886**	2,831,940
In the second year	**15,298**	159,485
In the third to fifth year inclusive	**—**	15,242
	1,953,184	3,006,667
Less: Amount due for settlement within one year and shown under current liabilities	**(1,937,886)**	(2,831,940)
Amount due after one year	**15,298**	174,727
Total borrowings		
— At fixed rates	**579,670**	903,510
— At floating rates	**1,373,514**	2,103,157
	1,953,184	3,006,667
Analysis of borrowings by currency:		
— Denominated in RMB	**1,548,556**	2,757,852
— Denominated in US$	**404,628**	178,057
— Denominated in Hong Kong dollar ("HK$")	**—**	70,758
	1,953,184	3,006,667

Fixed-rate borrowings are charged at the rates ranging from 5.61% to 9.0% per annum as at 31 December 2014 (2013: 1.4% to 9.0% 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 1.5% to 6.0% over LIBOR (2013: 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") (2013: 4.5%).

For all bank borrowings as above, the effective weighted average annual rate for the year ended 31 December 2014 was 6.60% per annum (2013: 6.83% per annum).

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

36. OTHER BORROWINGS

	2014 RMB'000	2013 RMB'000
Borrowings from		
Weifang City Investment Co., Ltd.		
(濰坊市投資有限公司) ("Weifang Investment")(Note i)	**14,000**	14,000
Liu Hua Mei (Note ii)	**32,000**	—
Hao Shu Fang (Note ii)	**10,500**	—
Total	**56,500**	14,000

Notes:

i. The borrowings from Weifang City Investment 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 2014 was 6.14% per annum (2013: 6.42% per annum).

ii. The borrowings from two individuals not connected to the Group are unsecured and payable within one year. The interest is charged by a floating rate at 30% the prevailing bank borrowings rate announced by the People's Bank of China.

The effective weighted average annual rate for the year ended 31 December 2014 was 7.28% per annum (2013: Nil).

37. SHORT-TERM FINANCING NOTES

On 16 January 2014, Century Sunshine has issued another RMB300,000,000 one-year term short term-financing note and replaced the first tranche of RMB300,000,000 which expired in January 2014. The short-term financing notes bear interest at a fixed coupon rate of 8.3% per annum and with an effective interest rate of 8.7% per annum (2013: 6.05% per annum).

38. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bonds on 23 July 2014. The final offering size of the seven-year corporate bonds was RMB500,000,000 with annual coupon rate of 8.19% per annum. The corporate bonds are guaranteed by SME Guarantee, and is with counter-guarantee arrangement with the Group's one piece of investment property of RMB191,859,000 (see Note 16), and will be repaid with 20% of offering size annually from the year 2017 to the year 2021.

39. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2013, 31 December 2013 and 31 December 2014	1,000,000,000	100,000

	Number of shares	Share capital	
			Shown in the consolidated financial statements
		HK$'000	RMB'000
Issued and fully paid:			
At 1 January 2013, 31 December 2013 and 31 December 2014	802,588,000	80,258	72,351

40. RESERVES

Merger reserve

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

Capital reserve

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

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

Assets revaluation reserve

Included in the balance of assets revaluation reserve at 31 December 2014, 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 RMB15,610,000 is the fair value adjustment resulted from the revaluation of leasehold properties at the time transferred to investment properties in the year 2012.

40. RESERVES (continued)

Statutory surplus reserve/discretionary surplus reserve

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

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

41. SHARE-BASED PAYMENT TRANSACTION

The Group did not have any share option scheme as at 31 December 2014.

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.

41. SHARE-BASED PAYMENT TRANSACTION (continued)

Share Option Scheme (continued)

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

The following share options were outstanding under the Share Option Scheme in the year 2013:

	Exercise price HK$ per shares	Number of options
At 1 January 2013	1.505	1,600,000
Expired during the year		(800,000)
Forfeited upon the resignation during the year		(800,000)
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).

No expense was recognised for the year ended 31 December 2014 (2013: RMB65,000) in relation to share options granted by the Company.

42. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the obligations under finance leases, discounted bill financing, bank borrowings, other borrowings, short-term financing notes and corporate bond disclosed in Notes 31, 34, 35, 36, 37 and 38 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.

43. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014 **RMB'000**	2013 RMB'000
Financial assets		
Loans and receivables	**3,153,240**	3,052,920
Derivative financial instruments	**75**	—
Financial liabilities		
Liabilities at amortised cost	**6,020,105**	5,706,326
Obligation under finance lease	**196,029**	195,252
Derivative financial instruments	**—**	1,149

(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.

43. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities, excluding foreign currency forward contracts and bank borrowings denominated in US$ as disclosed in Note 35, at the end of the reporting period are as follows:

	2014 RMB'000	2013 RMB'000
Assets		
US$		
Bank balances and cash	35,046	23,749
Trade receivables	12,380	34,420
HK$		
Bank balances and cash	1,675	1,804
EURO		
Bank balances and cash	1,261	30,408
Prepayments and other receivables	653	—

	2014 RMB'000	2013 RMB'000
Liabilities		
US$		
Trade payables	78,179	171,661
Bank borrowings	404,628	178,057
Other payables	1,282	—
EURO		
Trade payables	314	—
HK$		
Bank borrowings	—	70,758

As disclosed in Note 33, 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.

43. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

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

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	
	2014 RMB'000 (a)	2013 RMB'000 (a)	**2014 RMB'000 (b)**	2013 RMB'000 (b)	**2014 RMB'000 (c)**	2013 RMB'000 (c)
Increase (decrease) in post-tax profit for the year	**16,375**	10,933	**(63)**	2,586	**(60)**	(1,140)

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. The bank borrowings denominated in HK $ was repaid in full during the year 2014.

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 discounted bill financing, fixed-rate bank borrowings, short-term financing notes and corporate bond subject to negotiation on annual basis (see Notes 34, 35, 37 and 38 for details). 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 35 and 36 for details), finance lease obligations (see Note 31), restricted bank deposits and bank balances and cash (see Note 26).

The Group's exposures to interest rates on financial assets (see Note 26) and financial liabilities are detailed in the liquidity risk management section of this note.

43. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk management (continued)

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 (2013: 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 (2013: 25 basis points) and all other variables were held constant, the Group's post-tax profit would decrease (increase) by approximately RMB622,000 for the year ended 31 December 2014 (2013 increase by: RMB1,538,000).

(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.

43. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

As at 31 December 2014, the Group had net current liabilities of approximately RMB2,192,508,000 (2013: RMB2,369,813,000). 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 2014. 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 2015. The management believes that they can successfully renew these facilities lines based on their experience in the previous years.

Also the management considers that certain banks agreed to extend one year for certain bank borrowings amounting to RMB632,500,000 originally with the expiration dates in the year 2015 (See Note 51).

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.

43. 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 2014									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	6.85	–	477,555	123,021	–	–	–	600,576	579,670
Variable-rate bank borrowings (*)	6.10	–	852,042	545,477	15,572	–	–	1,413,091	1,373,514
Other borrowings	7.01	–	44,220	14,431	–	–	–	58,651	56,500
Bills payables		–	263,350	56,650	–	–	–	320,000	320,000
Trade payables		93,097	543,197	–	–	–	–	636,294	636,294
Other payables		52,987	–	20,475	–	–	–	73,462	73,462
Payable for construction work		29,227	–	–	–	–	–	29,227	29,227
Discounted bill financing		–	1,358,282	800,000	–	–	–	2,158,282	2,158,282
Obligations under finance leases	6.96	–	50,584	50,585	49,943	64,989	–	216,101	196,029
Short term financing notes	8.30	–	302,075	–	–	–	–	302,075	300,000
Corporate bond	8.19	–	–	20,475	40,950	398,280	224,570	684,275	493,156
		175,311	3,891,305	1,631,114	106,465	463,269	224,570	6,492,034	6,216,134
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

* Subsequent to the year ended 31 December 2014, certain PRC banks agreed to extend the Group's RMB632,500,000 bank borrowings' expiration dates (originally to be repaid in year 2015) for one year (See Note 51).

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

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

Included in above, discounted bill financing with carrying amount of approximately RMB192,540,000 (2013: RMB11,443,000) will be offset with corresponding bills receivable upon maturity.

43. FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurements

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

Some of the Group's financial assets and 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 assets and 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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31/12/2014	31/12/2013		
Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	**Foreign currency forward contracts: RMB75,000**	Nil	Level 2	Discounted cash flow. Key inputs are quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were provided by the counterparty financial institutions at the end of the reporting period and discounted at a rate that reflects the credit risk of various counterparties.

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31/12/2014	31/12/2013		
Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	**Nil**	Foreign currency forward contracts: RMB1,149,000.	Level 2	Discounted cash flow. Key inputs are quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts, which were provided by the counterparty financial institutions at the end of the reporting period and 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.

44. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities (including bank borrowings, discounted bill financing and issuance of bills payable) granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period is as follows:

	2014 RMB'000	2013 RMB'000
Buildings	95,063	130,523
Plant, machinery and equipment	1,065,563	907,964
Prepaid lease payments	46,172	140,049
Inventories	20,000	—
Trade receivables	74,270	230,000
Bills receivable	192,540	11,443
Restricted bank deposits	1,574,633	1,230,308
	3,068,241	2,650,287

Besides the pledge of assets to secure banking facilities disclosed above, certain assets are pledged under counter guarantee arrangement and in respect of assets held under finance leases (See Note 15 and 16 for details).

45. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	53,685	80,991

46. OPERATING LEASES

The Group as lessee

	2014 RMB'000	2013 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	1,231	1,894

46. 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:

	2014 RMB'000	2013 RMB'000
Within one year	118	242
In the second to fifth year inclusive	322	462
	440	704

The Group as lessor

Property rental income earned during the year was RMB6,336,000 (2013: RMB6,819,000). All of the properties held have committed tenants for the next 1 to 7 years.

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

	2014 RMB'000	2013 RMB'000
Within one year	5,959	6,759
In the second to fifth year inclusive	21,449	22,084
After five years	9,145	10,524
	36,553	39,367

47. RELATED PARTY TRANSACTIONS

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

	2014 RMB'000	2013 RMB'000
Sales of electricity and stream to a non-controlling shareholder of a subsidiary	111,192	99,297
Interest income earned from a joint venture (Note 8(i))	22,816	17,693

Note:

Besides the transaction disclosed above, the Company purchased certain wood pulp on behalf of Sunshine Oji as an agent and then sold it for RMB129,848,000 to Sunshine Oji for its business activities in 2014 (2013: RMB72,446,000).

47. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	2014 RMB'000	2013 RMB'000
Trade receivable from (*) a non-controlling shareholder of a subsidiary	**11,216**	7,839
Other receivables from a joint venture (**)		
Receivables from the disposal of buildings, equipment and land used right	**76,480**	76,480
Receivables from the trial run operation financing	**146,828**	146,828
Interest receivable	**31,015**	17,693
	254,323	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, see Note 8 for more details.

(c) Compensation of key management personnel

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

	2014 RMB'000	2013 RMB'000
Short term employee benefit	**3,678**	4,212
Retirement benefit scheme contributions	**43**	32
Equity-settled share-based payment	**–**	65
	3,721	4,309

48. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

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.

There are no employees attending the retirement benefit scheme in the subsidiaries out of PRC.

49. 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 31 December 2013 RMB'000
Consideration received and receivable:	
Cash received	1,060
Bank acceptance notes	2,900
Deferred cash consideration	9,840
Total consideration received and receivable	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

49. DISPOSAL OF A SUBSIDIARY (continued)

	Year ended 31 December 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	5,497

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

Net cash inflow arising on disposal

	Year ended 31 December 2013 RMB'000
Cash consideration received	1,060
Less: bank balances and cash disposed of	(2)
	1,058

The Group have fully collected the deferred cash consideration during the current year.

50. PARTICULARS OF SUBSIDIARIES

50.1 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 2014	2013	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 iii)	Private limited company	United States of America	US$740,000	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)	Private limited company	PRC	RMB5,400,000	100.00%	100.00%	Manufacture of paper products
昌樂昌東廢紙收購有限責任公司 (Changle Changdong Waste Paper Recovery Co., Ltd.) (Note i)	Private limited company	PRC	RMB46,500,000	100.00%	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
濰坊大環再生資源有限公司 (Weifang Dahuan Waste Recovery Co., Ltd.) (Note ii)	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.)	Private limited company	PRC	RMB6,000,000	55.00%	55.00%	Advertising
陽光概念包裝有限公司 (Sunshine Concept Packing Co., Ltd.)	Private limited company	PRC	RMB5,000,000	100.00%	100.00%	Package design

50. PARTICULARS OF SUBSIDIARIES (continued)

50.1 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 濰坊碧水再生資源有限公司 (Weifang Bishui Waste Recovery Co., Ltd).

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

None of the subsidiaries had issued any debt securities at the ended of the year except for the Century Sunshine which has issued RMB500,000,000 of corporate bond (see Note 38), in which the Group has no interest.

50.2 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	
		31/12/2014 %	31/12/2013 %	31/12/2014 RMB'000	31/12/2013 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.)	PRC	20	20	7,023	5,464	96,470	89,447
Individually immaterial subsidiary with non-controlling interest						3,715	4,041
						100,185	93,488

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.

50. PARTICULARS OF SUBSIDIARIES (continued)

50.2 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.

	2014 RMB'000	2013 RMB'000
Current assets	**742,406**	522,362
Non-current assets	**445,026**	475,408
Current liabilities	**(695,157)**	(541,367)
Non-current liabilities	**(9,922)**	(9,166)
Equity attributable to owners of the Company	**385,883**	357,790
Non-controlling interests	**96,470**	89,447

	2014 RMB'000	2013 RMB'000
Revenue	**497,341**	518,185
Expenses	**462,225**	490,864
Profit for the year	**35,116**	27,321
Profit attributable to owners of the Company	**28,093**	21,857
Profit attributable to the non-controlling interests	**7,023**	5,464
Profit for the year	**35,116**	27,321
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	**28,093**	21,857
Total comprehensive income attributable to the non-controlling interests	**7,023**	5,464
Total comprehensive income for the year	**35,116**	27,321

50. PARTICULARS OF SUBSIDIARIES (continued)

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

	2014 RMB'000	2013 RMB'000
Net cash inflow from operating activities	**134,840**	541,743
Net cash outflow from investing activities	**(63,662)**	(32,645)
Net cash outflow from financing activities	**(30,843)**	(513,970)
Net cash inflow (outflow)	**40,335**	(4,872)

51. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the year ended 31 December 2014, certain PRC banks agreed to extend the Group's RMB632,500,000 bank borrowings' expiration dates for one year when they fall due in year 2015.

52. 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:

	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**462,824**	462,824
Amounts due from subsidiaries	**629,684**	618,965
	1,092,508	1,081,789
CURRENT ASSETS		
Prepayments and other receivables	**183**	270
Amounts due from subsidiaries	**12,641**	9,996
Bank balances and cash	**1,582**	1,666
	14,406	11,932
CURRENT LIABILITIES		
Amounts due to subsidiaries	**22,564**	22,564
	22,564	22,564
NET CURRENT LIABILITIES	**(8,158)**	(10,632)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,084,350**	1,071,157
CAPITAL AND RESERVES		
Share capital	**72,351**	72,351
Reserves	**1,011,999**	998,806
TOTAL EQUITY	**1,084,350**	1,071,157

52. 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 2013	72,351	695,682	283,277	362	12,568	1,064,240
Profit and total comprehensive income for the year	—	—	—	—	6,852	6,852
Recognition of equity-settled share-based payments	—	—	—	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
Profit and total comprehensive income for the year	—	—	—	—	19,584	19,584
Dividend declared	—	—	—	—	(6,391)	(6,391)
At 31 December 2014	**72,351**	**695,682**	**283,277**	**—**	**33,040**	**1,084,350**

Financial Summary

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Results					
Revenue	**3,447,617**	3,657,671	3,704,180	3,721,189	2,456,540
(Loss)/profit before taxation	**(16,921)**	38,945	71,495	115,697	202,768
Taxation	**(14,348)**	(11,425)	(16,929)	(27,188)	(28,446)
Minority interests	**(6,697)**	(5,465)	(10,583)	(6,107)	(4,708)
(Loss)/profit attributable to shareholders	**(37,966)**	22,055	43,983	82,402	169,614
Assets					
Non-current assets	**4,411,929**	4,280,860	3,938,264	3,634,046	3,516,555
Current assets	**3,485,528**	3,325,826	3,539,284	3,344,158	2,898,617
Total assets	**7,897,457**	7,606,686	7,477,548	6,978,204	6,415,172
Liabilities					
Non-current liabilities	**656,971**	310,937	897,467	1,031,030	1,269,745
Current liabilities	**5,678,036**	5,695,639	5,010,256	4,432,813	3,700,682
Total liabilities	**6,335,007**	6,006,576	5,907,723	5,463,843	4,970,427
Equity and reserves					
Total equity	**1,562,450**	1,600,110	1,569,825	1,514,361	1,444,745
Minority interests	**(100,185)**	(93,488)	(85,323)	(73,155)	(53,987)
Equity attributable to owners of the Company	**1,462,265**	1,506,622	1,484,502	1,441,206	1,390,758