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

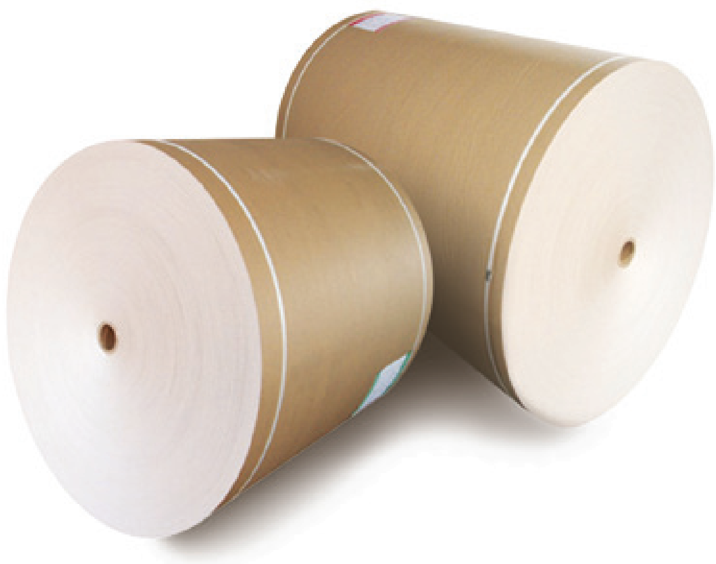
Annual Report 2017

*For identification purposes only

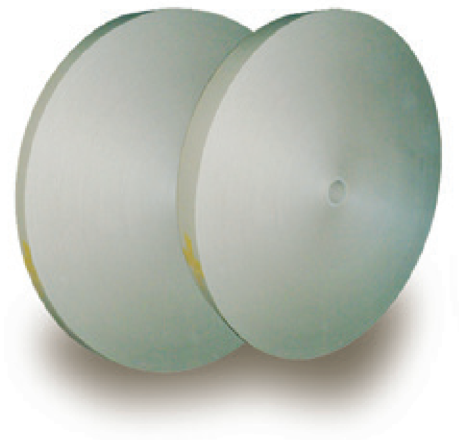
Contents

Main Products

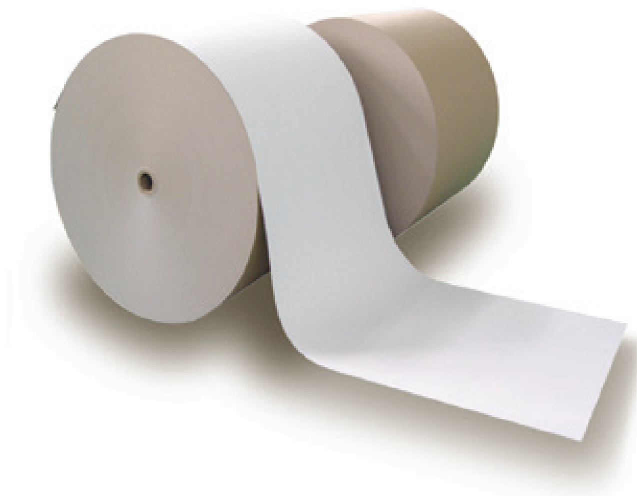
White top linerboard is used to provide the outer facing surface of the corrugating medium. It is a combination of linerboard and fluted inner sheet of corrugating medium, which gives the board its rigid structure and stacking strength. White top linerboard is typically used as packaging material for 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. Wang Changhai *(General Manager)*
Mr. Zhang Zengguo *(Deputy General Manager)*

Non-Executive Directors

Mr. Xu Leihua
Mr. Li Hengwen

Independent Non-Executive Directors

Mr. Wang Zefeng
Ms. Jiao Jie
Ms. Shan Xueyan

AUDIT COMMITTEE

Ms. Shan Xueyan *(Chairlady)*
Mr. Wang Zefeng
Ms. Jiao Jie

REMUNERATION COMMITTEE

Mr. Wang Zefeng *(Chairman)*
Mr. Wang Dongxing
Ms. Shan Xueyan

NOMINATION COMMITTEE

Ms. Jiao Jie *(Chairlady)*
Mr. Wang Dongxing
Mr. Wang Zefeng

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

17/F, Winsan Tower
98 Thomson 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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai, Hong Kong

LEGAL ADVISERS AS TO THE LAWS OF HONG KONG

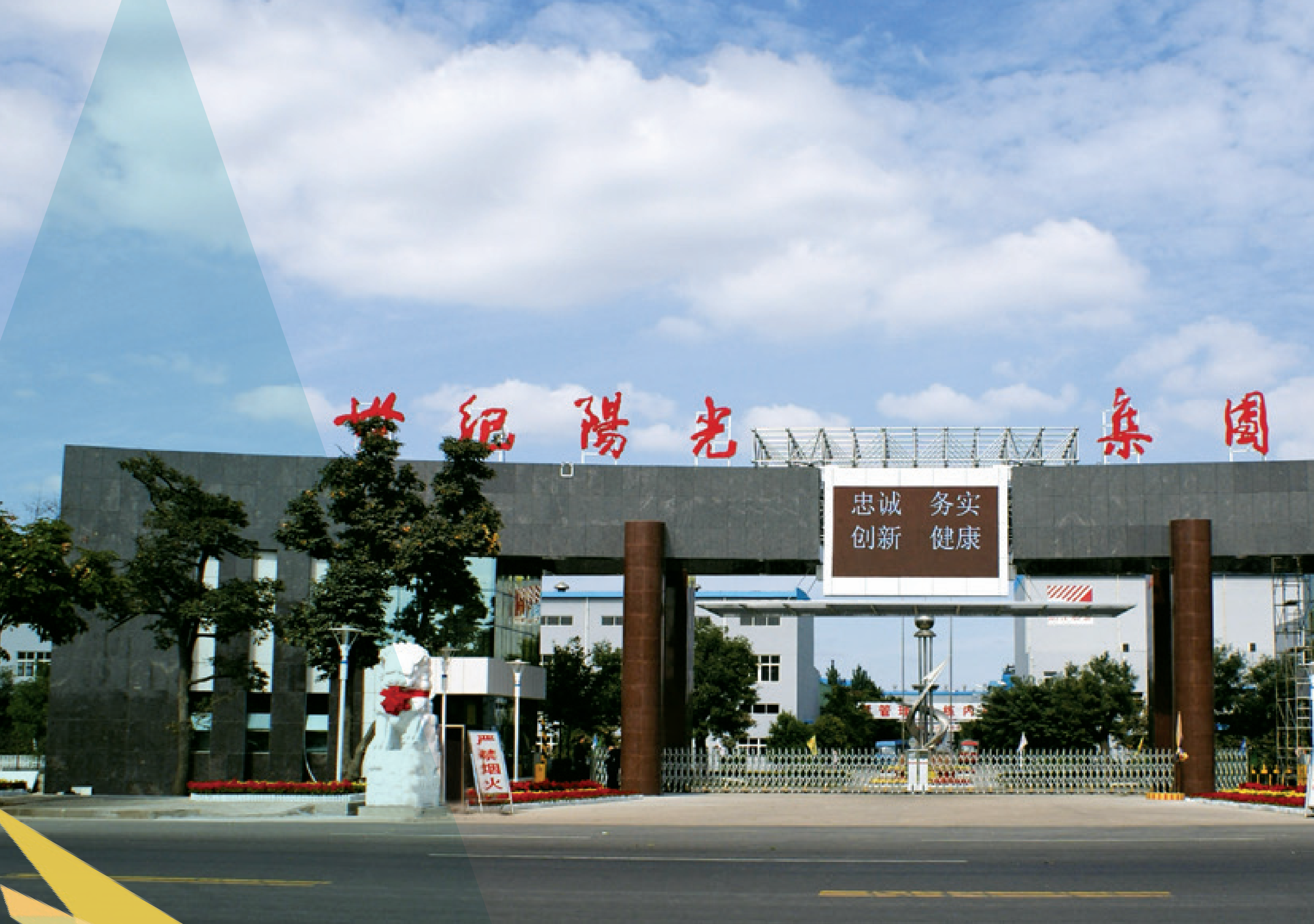
Luk & Partners
In Association with
Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

STOCK CODE

2002

WEBSITE

www.sunshinepaper.com.cn


忠诚 务实
创新 健康

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 2017.

BUSINESS REVIEW

During the year ended 31 December 2017, domestic and overseas economies continued to recover and showed promising signs of further improvement, with several upturns economic indicators recorded. The Government of the People's Republic of China introduced a number of industry policies consecutively, including the "cut overcapacity, reduce excess inventory, deleverage, lower costs, and strengthen areas of weakness (三去一降一補)" policy, the "Ten Clauses for Water (水十條)" and the "Ten Clauses for Air (大氣十條)". Restraints on industries were intensified through various measures, such as enhancement of standards for emissions and strict limitation on corporate size and structure. As the elimination process of outdated production capacity continued to progress, concentration in the paper manufacturing industry was further enhanced, while growth in overall supply of paper products slowed down remarkably. This led to the constant rise in product selling prices and continuing expansion of corporate marginal benefits, which provided a favorable environment for the development of sizable enterprises. The Group seized the opportunity and managed to increase its profitability continuously. For the year ended 31 December 2017, profit attributable to owners of the Group amounted to RMB396.0 million (FY2016: RMB123.1 million).

OUTLOOK

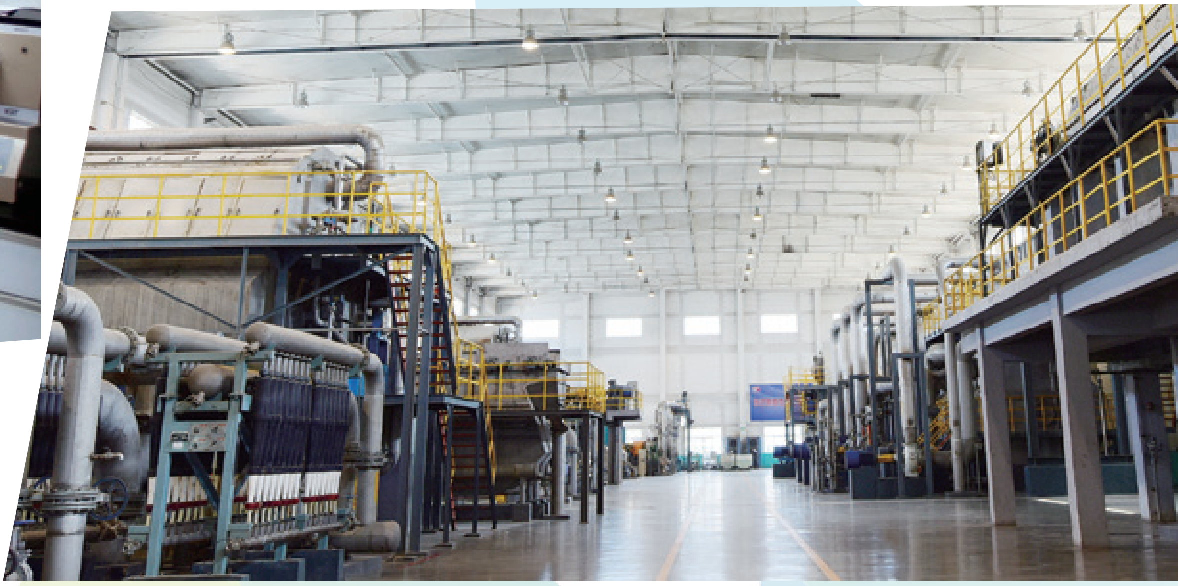
The Group has always adhered to the production concept of "making paper by green and environmental-friendly methods" by practicing high industry standards and fulfilling stringent requirements. We will strive to implement the guideline of "lucid waters and lush mountains are invaluable assets". As paper manufacturing is the key industry under the conventional environmental monitoring, coupled with elimination of backward production capacity being the top priority of the country's future supply-side structural reform, the Group will be in a better position for further competition. Meanwhile, with the consumption upgrade and organic growth of industrial demand, the Group is optimistic about the prospect of the industry of paper manufacturing and packaging.

Given the explosive emergence of the express delivery industry, the Group has commenced the construction of production line of corrugated paper at our Shandong base according to our existing development plan, which is expected to be put into operation at the end of this year or early next year, in order to further enhance the Group's cost-optimization deployment and market profitability for overall improvement of our scale efficiency and effectiveness.

2018 is a year of opportunities and challenges, where both difficulties and hopes will ensue. With "implementation and execution" as the management focus, the Group grasps significant opportunities for development and strives to implement the strategies of expanding core businesses and extending industry chains, principally putting efforts to enhance sophisticated production. We will also actively promote quality, efficiency and energy reforms, and prevent and address various risks, so as to maintain sustainable and steady operation of the Company.

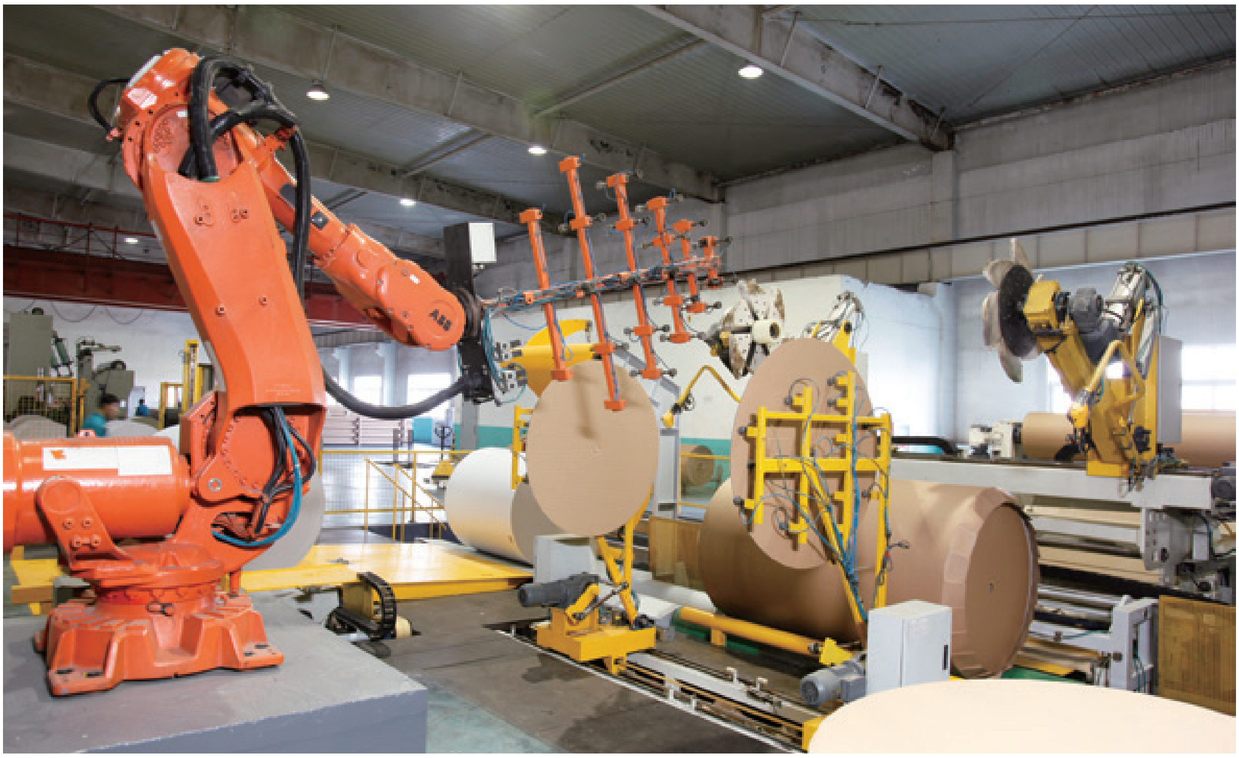
Wang Dongxing
Chairman

Hong Kong, China
27 March 2018



Management Discussion and Analysis

Management Discussion and Analysis



TOTAL REVENUE

Our Group's total revenue for the year ended 31 December 2017 ("FY2017") was RMB5,781.9 million, representing an increase of RMB1,558.6 million or 36.9% as compared to that of RMB4,223.3 million for the year ended 31 December 2016 ("FY2016").

Sales of paper products, which recorded an increase of 37.3% as compared with last year, accounted for substantially all of our Group's total revenue.

The increase in revenue mainly resulted from increase in selling prices of the paper products, which is mainly attributable to (1) improvement of paper-making environment in PRC, (2) strict environmental protection policies which potentially eliminate those obsolete paper products manufacturers, (3) our successful marketing strategy and (4) our high-qualify paper products with higher profit margin.

Sales of electricity and steam continued to account for a low single digit percentage of our Group's total revenue.

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

	FY2017		FY2016	
	RMB'000	%	RMB'000	%
Sales of paper products				
White top linerboard	1,545,784	26.7	1,196,996	28.3
Light-coated linerboard	2,267,706	39.2	1,755,488	41.6
Core board	736,082	12.7	514,614	12.2
Specialized paper products	1,014,692	17.6	585,605	13.9
Sub-total of paper products	5,564,264	96.2	4,052,703	96.0
Sales of electricity and steam	217,593	3.8	170,595	4.0
	5,781,857	100.0	4,223,298	100.0

COST OF SALES

Our cost of sales was around RMB4,534.6 million for FY2017, whereas the cost of sales for FY2016 was RMB3,396.3 million. Cost of sales for FY2017 was progressively grown with the increase in total revenue in general. We saw an increase in purchase cost of both domestic recovered paper and overseas recovered paper during FY2017. With respect to the costs of our paper products segment, domestic recovered paper, overseas recovered paper and kraft pulp accounted for approximately 35.6%, 26.3% and 10.6%, respectively, of our cost of sales for FY2017.

Chemicals and additives was portioned around 8.7% of the cost of sales and the remaining 18.8% were manufacturing overhead costs and labour costs.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased from RMB827.0 million for FY2016 to RMB1,247.2 million for FY2017. During FY2017, in line with the increase in selling prices, our gross profit margin for FY2017 was 21.6%, representing a 2.0 percentage point increase as compared to that of 19.6% for FY2016.

OTHER PROFIT AND LOSS ITEMS

Other income of RMB167.1 million for FY2017 (FY2016: RMB121.4 million) mainly comprised interest income of RMB41.6 million (FY2016: RMB52.6 million), rental income from an investment property and other properties of RMB1.5 million (FY2016: RMB1.7 million) and government grants of RMB124.0 million (FY2016: RMB67.1 million). The increase in government grants mainly reflected unconditional government subsidies of RMB82.8 million and RMB41.1 million for the purposes of supporting the Group's operation and refund of value-added tax paid, respectively.

We recorded net other losses of RMB24.8 million for FY2017, as compared to that of RMB28.2 million for FY2016. Other losses mainly reflected a loss on disposal and written off of property, plant and equipment of RMB49.7 million in FY2017 (FY2016: RMB20.0 million). Net foreign exchange gains of RMB4.2 million was reported in FY2017 (FY2016: RMB14.7 million losses). The continuing appreciation of Renminbi against US dollar during FY2017 resulted in the foreign exchange gain of our bank borrowings denominated in US dollar.

Transportation cost and staff costs constituted major parts of the distribution and selling costs. Distribution and selling expenses recorded an decrease from RMB277.8 million for FY2016 to RMB269.2 million for FY2017. For FY2017, it was approximately 4.7% of the total revenue, compared with 6.6% for FY2016. Lower proportion are mainly reflected in the increase of income.

Continuous expansion of operation size of our Group resulted in the increase in administrative expenses from RMB191.2 million for FY2016 to RMB297.0 million for FY2017. For FY2017, it was approximately 5.1% of the total revenue, compared with 4.5% for FY2016.

The loss for the change in fair value of an investment property of RMB18.9 million represented the revaluation loss arising from the investment property located in the PRC (FY2016: RMB4.5 million revaluation loss).

We shared the profit of a joint venture of RMB12.7 million for FY2017, as compared to the loss of RMB12.5 million for FY2016. The launch of high quality decorative papers and market development during FY2017 resulted in the improvement in the operating results of this joint venture.

Finance costs increased by approximately 1.6% or RMB3.9 million, from RMB248.7 million for FY2016 to RMB252.6 million for FY2017. For FY2017, it was approximately 4.4% of the total revenue, compared with 5.9% for FY2016.

INCOME TAX EXPENSES

Income tax expenses were RMB163.0 million and RMB58.8 million, respectively, for FY2017 and FY2016. The sharp increase in income tax expenses reflected the increase in taxable profit of our Group's PRC subsidiaries, which are subject to PRC enterprise tax of 25%.

PROFIT FOR THE YEAR

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of RMB396.0 million for FY2017 (FY2016: RMB123.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

Treasury policy

Our working capital requirement and capital expenditure are financed by a combination of cash generated from our operations and bank and other borrowings. It is our Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During FY2016 and FY2017, 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

Net current liabilities of our Group was RMB1,503.6 million as at 31 December 2017, as compared to that of RMB1,963.6 million as at 31 December 2016. Current ratio was 0.73 times and 0.63 times, respectively, as at 31 December 2017 and 31 December 2016.

As at 31 December 2017, we had bank balances and cash, and restricted bank deposits, of approximately RMB1,956.0 million, representing an decrease of RMB81.8 million as compared to that of RMB2,037.8 million as at 31 December 2016.

Inventories increased from RMB345.2 million as at 31 December 2016 to RMB768.1 million as at 31 December 2017. Inventory turnover was 45 days for FY2017, as compared to that of 39 days for FY2016.

Trade receivables increased from RMB310.5 million as at 31 December 2016 to RMB425.6 million as at 31 December 2017. Trade receivables turnover for FY2017 was 23 days as compared to 31 days for FY2016. The shorter trade receivables turnover day reflected the improving business environment of paper manufacturing for FY2017.

Trade payables were RMB853.3 million as at 31 December 2017, as compared to RMB936.0 million as at 31 December 2016. Trade payables turnover for FY2017 was 72 days, as compared to that of 92 days for FY2016.

Cashflow

Net cash from operating activities amounted to RMB236.1 million for FY2017 (FY2016: RMB848.3 million). Net cash used in investing activities amounted to RMB528.7 million for FY2017 (FY2016: RMB40.9 million), primarily representing the purchase of property, plant and equipment of RMB337.1 million, increase in restricted bank deposits of RMB35.9 million, and acquisition of the subsidiaries of RMB36.8 million.

Net cash generated from financing activities amounted to RMB175.0 million for FY2017 (FY2016: Net cash used in financing activities amounted to RMB542.7 million), primarily attributable to interest paid of RMB260.9 million, the net repayment of bank and other borrowings of RMB2,591.2 million, and the repayment of obligations under finance leases of RMB154.7 million, offset in part by the net proceeds from sale and finance lease back transactions of RMB347.6 million.

The combined effect of the above resulted in a net decrease in cash and cash equivalents of RMB117.6 million for FY2017 (FY2016: Net increase in cash and cash equivalents of RMB264.7 million).

Gearing

Our net gearing ratio increased from 27.5% as at 31 December 2016 to 72.2% as at 31 December 2017. The increase in net gearing ratio was mainly driven by the increase in bank borrowings.

Capital expenditure

During FY2017, our capital expenditure was approximately RMB362.4 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 2017, the aggregate carrying amount of our assets pledged was approximately RMB3,723.9 million. (2016: RMB2,794.6 million).

Capital commitments and contingent liabilities

Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of property, plant and equipment was approximately RMB207.8 million as at 31 December 2017 (2016: RMB33.0 million).

As at 31 December 2017, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 3,500 full-time employees in the PRC and Hong Kong as at 31 December 2017. The staff costs for FY2017 were approximately RMB274.5 million, representing an increase of RMB73.3 million over FY2016 of approximately RMB201.2 million. The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Notes to financial ratios

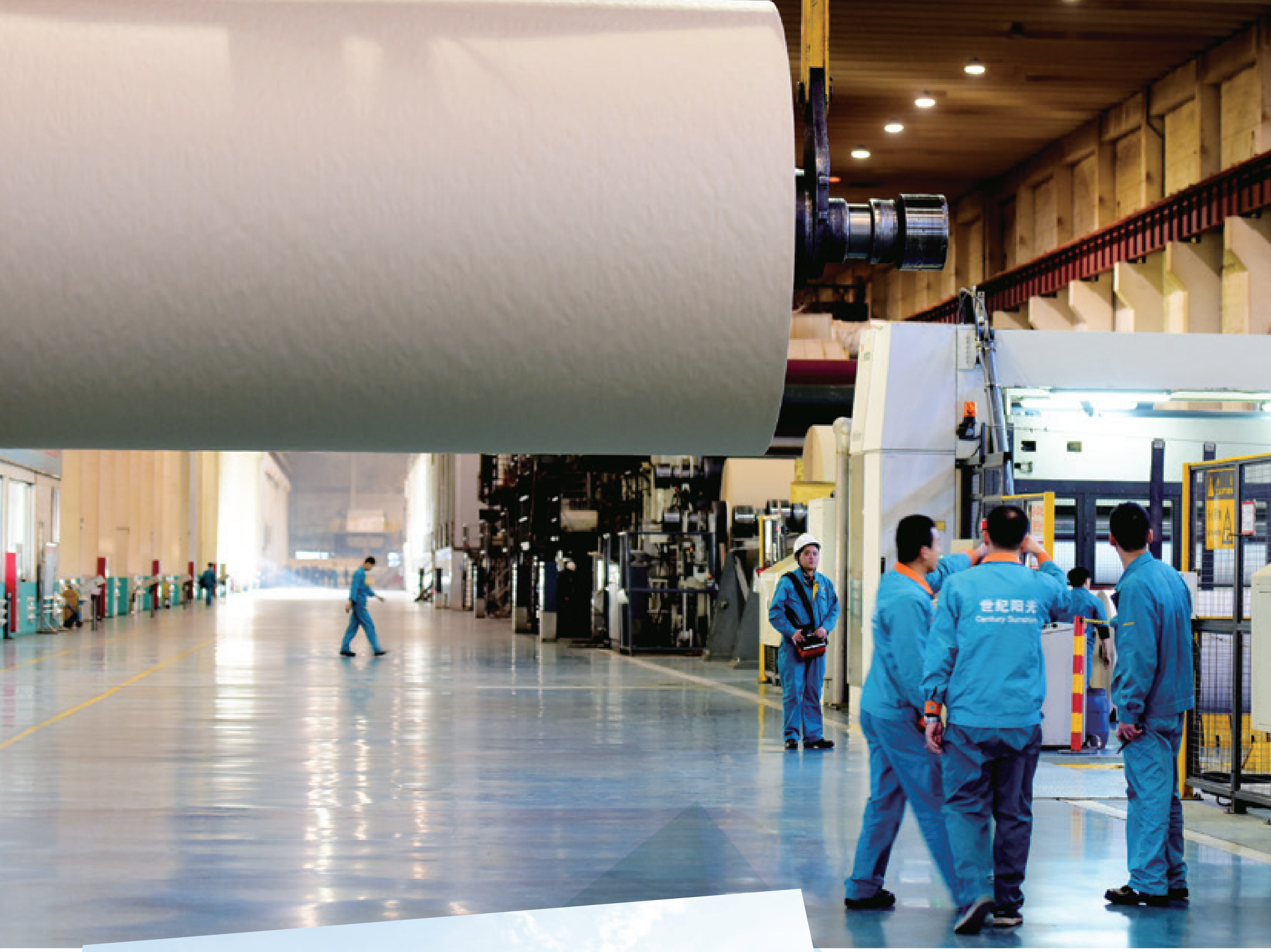
(1) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.

(2) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant year 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, 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.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Corporate Governance Report

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Code on Corporate Governance Practices

Our Company is committed to achieve high standard of corporate governance. The directors (the "Directors") of our Company 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 FY2017.

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 FY2017.

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 FY2017 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. Wang Changhai Mr. Zhang Zengguo
Non-executive Directors:	Mr. Xu Leihua Mr. Li Hengwen
Independent non-executive Directors:	Ms. Shan Xueyan Mr. Wang Zefeng Ms. Jiao Jie

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, Mr. Zhang Zengguo and Mr. Wang Changhai 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, Mr. Zhang Zengguo and Mr. Wang Changhai, 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. Pursuant to Article 87 of the Articles, Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Wang Changhai shall retire from office at the forthcoming annual general meeting of the Company to be held on 31 May 2018 (the "AGM") and being eligible for re-election, will offer themselves for re-election at the AGM.

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 FY2017 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 general meetings

For FY2017, our Company held a total of four Board meetings and one annual general meeting. The attendance records of each member of the Board at the Board meetings and the general meeting are set out in the following table:

Director	Board meetings attendance/held	General meetings attendance/held
Executive Directors		
Mr. Wang Dongxing	4/4	1/1
Mr. Shi Weixin	4/4	1/1
Mr. Wang Changhai	4/4	1/1
Mr. Zhang Zengguo	4/4	1/1
Non-executive Directors		
Mr. Xu Leihua	4/4	1/1
Mr. Li Hengwen	4/4	1/1
Independent Non-executive Directors		
Ms. Shan Xueyan	4/4	1/1
Mr. Wang Zefeng	4/4	1/1
Ms. Jiao Jie	4/4	1/1

Directors' training and continuous professional development

Each of our newly appointed Directors 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 FY2017:

Director	**Type of training attended**
Executive Directors	
Mr. Wang Dongxing	A
Mr. Shi Weixin	A
Mr. Wang Changhai	A
Mr. Zhang Zengguo	A
Non-executive Directors	
Mr. Xu Leihua	A
Mr. Li Hengwen	A
Independent Non-executive Directors	
Ms. Shan Xueyan	A
Mr. Wang Zefeng	A
Ms. Jiao Jie	A

Legend:

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

NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

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 44 of this annual report.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control system and risk management 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 FY2017, our audit committee held two meetings to review our annual results for FY2016 and interim results for the six months ended 30 June 2017, and our risk management and 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 Ms. Shan Xueyan. 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 of our Group is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. During FY2017, our remuneration committee held one meeting to determine the policy for the remuneration of our executive Directors and assess performance of our executive Directors.

NOMINATION COMMITTEE

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

The nomination committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng and Ms. Jiao Jie. Ms. Jiao Jie is the chairlady of the nomination committee. During FY2017, 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 AGM.

The Company has adopted a 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 to 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 the board diversity policy in selection of Board candidates. Board members nomination and appointments will continue to be made on merit basis based on the Company's 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 FY2017, 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 FY2017.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during FY2017. 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. Wang Changhai	—	—	—
Mr. Zhang Zengguo	—	—	—
Non-executive Directors			
Mr. Xu Leihua	—	—	—
Mr. Li Hengwen	—	—	—
Independent Non-executive Directors			
Ms. Shan Xueyan	2/2	1/1	—
Mr. Wang Zefeng	2/2	1/1	1/1
Ms. Jiao Jie	2/2	—	1/1

COMPANY SECRETARY

For FY2017, 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. It reviews and monitors the training and continuous professional development of our Directors and senior management of our Company; reviews and monitors our Company's policies and practices on compliance with legal and regulatory requirements; develops, reviews and monitors the code of conduct applicable to our Company's employees and Directors; and reviews our Company's compliance with the CG Code and the disclosure in this corporate governance report. During FY2017, the Board has carried out such responsibilities during the Board meetings held in the year.

CHAIRMAN AND CHIEF EXECUTIVE

The 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. Mr. Wang Changhai was the general manager of Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine"), the principal operating subsidiary of our Group for FY2017. As such, our Company has complied with Code 2.1 of the CG Code in respect of the appointment of chairman and chief executive.

AUDITOR'S REMUNERATION

For FY2017, we have engaged the auditor of our Company for audit services only. The fee paid or payable to the auditor of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.2 million and RMB0.1 million, respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Board acknowledges that it has overall responsibility for our Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit and control department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board.

During FY2017, our Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of our Company also performs regular review of our Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of our Group. Such review in FY2017 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. Our Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of our Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, our Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

Our Directors acknowledge their responsibility for preparing the consolidated financial statements for FY2017, 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 53 to 58 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 apply 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 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 the "Investors Relations" on our Company's website.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There are no significant changes to the constitutional documents of our Company during FY2017.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

This environmental, social and governance report of our Group describes our performance in environmental, social and governance ("environmental, social and governance") terms by reference to the "Environmental, Social and Governance Reporting Guide" as stipulated in Appendix 27 to the Listing Rules of The Stock Exchange of Hong Kong Limited and the disclosures therein.

Unless otherwise specified, this environmental, social and governance report covers the overall performance of the Group for the period from 1 January 2017 to 31 December 2017.

CORPORATE MOTTO AND VISION ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE AREAS

Our Group has always upheld and adhered to our corporate motto of "faithfulness, pragmatism, innovation and healthiness". "Making paper by green and environmental-friendly methods" is the concept that has been advocated and practised by us throughout the production process, and we have dedicated ourselves to the full utilisation of renewable resources to manufacture our paper products, so as to diminish the impact of it on the environment. We will further strengthen each and every fundamental aspect of our management, and establish, bit by bit, a scientific, highly-sophisticated and professional management structure which will facilitate a polished performance in corporate and social responsibilities.

Our Group companies have always adhered to the highest level of environmental standards in their development. Continuous efforts have been made to enhance the construction of environmental-friendly facilities and our investment in environmental conservation. We rank among the best in the industry in terms of various environmental and energy consumption indicators and have become a resource- and environmental-friendly corporation. More investment will be made to ensure that our Group sustainably conforms to high-level requirements for environmental protection.

A. ENVIRONMENT

A1. Emissions

In recent years, China has been implementing relevant policies to enhance environmental conservation, with a view to striking a balance between economic development and ecological equilibrium. The Group continually undertakes our mission to contribute to environmental preservation and therefore proactively adopts various improvement measures and approaches to fulfil our corporate social responsibilities.

Our Group companies have set up an environmental steering committee with technical experts engaged to formulate a stringent management system for environmental protection affairs and to put in place contingency plans in case of environmental emergencies. Internal control meetings have been regularly held, emergency drills conducted, and sessions arranged to update our staff on the latest development of environmental protection laws and regulations. Our Group will make unremitting efforts to comply with both national and local regulations on environmental protection and implement any decision made on energy conservation and emission reduction issues.

Gas Emissions

In order to make sure that there is a sufficient steam and electricity supply in the course of production, the Group runs a self-operated thermal power station with a certain amount of gas emissions being generated. All the boilers in the thermal power station are circulating fluidized bed boilers, which can effectively incinerate various coal types, thus reducing energy consumption at the source and mitigate the effects exerted on the environment. In respect of exhaust gas treatment, sulphur dioxide is desulphurised by "limestone and gypsum wet method", the emission concentration of which is far below the national emission standard of 35mg/m^3. The "boiler low-NOx combustion + SNCR (non-catalytic reduction) method" is adopted for nitrogen oxides, with an emission concentration much lower than the national emission standard of 100mg/m^3. For particulates, we applied "electrostatic dedusting + wet electrostatic dedusting method", resulting in a substantially lower emission concentration as compared to the national standard of 10mg/m^3.

CO_2

Total amount of coal consumed by our Company during the reporting period was 1,030,005 tonnes, translated into 1,714,958 tonnes of CO2e.

SO_2

Total SO2 emission amount of our Company during the reporting period was 123.7 tonnes and the measured concentration of emission was 14.12 mg/m^3.

NO_x

Total NOx emission amount of our Company during the reporting period was 640.4 tonnes and the measured concentration of emission was 73.15 mg/m^3.

Particulate

Total particulate emission amount of our Company during the reporting period was 18.9 tonnes and the measured concentration of emission was 2.16 mg/m^3.

The Group achieved the goal of ultra-low emissions of sulphur dioxide, nitrogen oxides as well as particulates, which can effectively improve environmental quality.

In respect of fugitive dust treatment, four fully-enclosed ash storehouses and two fully-enclosed slag storehouses were established to improve the working conditions for our employees and better protect the surrounding environment at the same time.

Sewage Discharge

Our group companies adopted cutting-edge production technologies in paper-making processes and improved the recycling process on whitewater throughout our production lines; which enhance our efforts in the use of recycled white water from the beginning. As for sewage treatment, the establishment of water treatment engineering, designed by Paques of the Netherlands, was completed; boosted a daily capacity of 55,000 m^3 and applied the anaerobic removal + aerobic removal + flocculation technique — the most effective wastewater treatment solution worldwide. With our water reuse rate of above 80% and our clean production practices in terms of clean water consumption, integrated energy consumption and bone dry fibre consumption all within the Level B Standard of China, we had simultaneously incorporated water treatment, water conservation and energy conservation into our production that contributed to conservation of scarce natural resources as well as our production cost reduction, thereby creating benefits to both operating efficiency and environmental protection.

Environmental indicators in discharged wastewater (including chemical oxygen demand (COD), ammonia nitrogen, total suspended matter (SS), total nitrogen, total phosphorus, chroma, biochemical oxygen demand, the potential of hydrogen (pH), etc.) have met the emission standards.

Solid Waste

Solid waste generated from paper-making processes in our group companies has been recycled and reused. For instance, sludge, once it is selected, will be transported to thermal power stations for incineration with coal. By such process, it could generate steam and electricity for our production. All solid wastes, i.e. waste plastic would be sent for detoxification through the comprehensive utilisation projects of solid waste treatment.

Hazardous waste generated from productions will be regulated and managed in strict compliance with State's laws and regulations. A designed area within the plant is assigned for storing dangerous exhaust gas which is under supervision. We appoint qualified units to carry out detoxification treatments on a regular basis.

Non-hazardous Waste

Office paper is the primary source of non-hazardous waste generated from the Group's operation. The Group keeps on the measures to reduce paper use, for instance, moving to a paper-free operation, double-sided printing as the default setting, and reminding our staff to minimize the amount of photocopying, sorting and recycling used office papers and domestic waste. Recollected office papers can be further recycled for paper manufacturing, which maximizes energy saying.

A2. Use of Resources

Another long-term goal of the Group in environmental protection is to achieve energy saving by limiting the energy consumption throughout production processes. In this regard, the Group optimises the energy system of the equipment which is consuming significantly and establishes a system for energy management. We also carry out cleaner production activities to reduce the consumption of water and electricity, from which the Group is committed to minimising the impact on the environment continually.

Besides, the group companies recollect all the marsh gas emitted during wastewater treatment processes which involved anaerobic bacteria. The recollected marsh gas would be used for the natural gas refining, which is, in turn, to be used for drying purposes in the paper-making workshop. This enables us to reduce energy consumption.

A3. Environment and Natural Resources

Our group companies adopted a diversified and specialised strategy for their developments, which introduces a new tide on the green package — using fewer papers. The enterprise has been granted the certification to ISO9001 Quality management system, ISO14001 Environmental Management System, OHSAS18001 Occupation Health Safety Management System and FSC Forest Management System.

Waste paper is the primary raw materials for our group companies' products. Not only the recycling can significantly limit the pace of deforestation and destruction, but also can lower our energy consumption and emission. Therefore, the effect on the environment is limited.

In addition, our group companies maximise the use of equipment and products that are low-noise and energy efficient equipment at the construction phase. Apart from that, measures on noise mitigation have been in place in the plants, and protective gears specialized for noise mitigation such as earplugs, etc. are provided to the workforce for safety sake. Meanwhile, we inspect the noise level within the plant area on a regular basis to ensure that it complies with the noise criteria and minimises the effect on the surroundings. We increase our investment in deodorizing sewage treatment facilities, and extend the green vegetation within the plant area. The measures can alleviate the odour problem and beautify the environment, turning it into a garden-like plant.

B. SOCIAL

Employment and Labour Practices

B1. Employment

The Group conducts its recruitment and hiring in strict compliance with Labour Law of the People's Republic of China. The emolument policy of our employees is aimed at attracting, retaining and motivating talented individuals. The principle behind the policy is to have performance-based remuneration which reflects market standards; an organised adjustment would be made every year in accordance with the circumstances. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees may also be entitled to certain welfare benefits, such as year-end bonus, "five insurances and one fund", and various statutory paid leaves (maternity leave, marriage leave, bereavement leave, paternity leave and home leave etc.), meal allowance, housing allowance, allowance for certain titles, subsidies for further education and festive holidays.

Our Group conducts regular review on its staff manual and modifies its provisions as it thinks fit. Contents of the manual include the key corporate information of the Company, our policy, procedures, career promotion path, compensation and welfare, occupational safety and health, complaint filing and reporting procedures.

During the reporting period, our Group adhered to the core value of "a people-oriented approach for the happiness of labour" to maximize the happiness and benefits of employees. Our Group assures employees a safe, healthy and comfortable work environment and gradually establishes a system of career development planning for employees, regardless of age, gender and ethnicity. It should serve as a platform of self-realization for employees and inspire them to enhance work efficiency.

We offer equal opportunities to employees with regard to recruitment, training and development, promotion, and compensation and benefit. We strive to eliminate any kind of discriminations that are based on gender, ethnicity, religious belief, race, sexual orientation, age, marriage status, family status, disability, pregnancy or other prohibited factors stipulated in relevant laws that they are vulnerable to discrimination or being deprived of equal opportunities. Our Group also thoroughly recognizes the importance of recruiting employees of different age, gender and race in corporate development.

What is more is that we have a trade union and a mutual fund that represent the common good of majority workforce, so that the people-oriented and caring culture could be put into practice.

B2. Health and Safety of Employees

Our Group regularly reviews the health and safety procedures for employees to safeguard their wellbeing. Our employees are entitled to a free annual occupational health check-up. Our Group boosts the employees' safety awareness with briefing, training, information and reminders. After induction, employees are required to complete a safety education training, with a passing score in their assessments as the pre-requisite for securing the positions. Our group conducts fire drills, evacuation and escape exercises on a regular basis in order to enhance the employees' safety awareness and their emergency response capacity.

B3. Development and Training

All of our newly recruited employees are required to attend an induction training so as to familiarize themselves with the essence of our corporate culture, including core values, company motto and working attitude.

Our Group also provides employees with comprehensive and diverse training programs to enhance their overall quality through standardized and specific training, such as internal lectures and external specialized training, with an aim of offering quality and effective services to customers as well as enriching their personal attributes.

To cultivate a healthy and upbeat value preference among employees and accumulate greater positive energy for development, our Group organized a wide range of activities, such as pacesetter contest, IWD sports activities, tug-of-war competition for employees, young singer competition, basketball league for employees, outdoor training activities, photography exhibitions and seminars for fresh graduates, etc. The above activities enriched the cultural life of the employees and fostered corporate solidarity.

B4. Labour Standards

During the reporting period, there was no child labour or forced labour in the operation of our Group. In terms of employment management, we strictly adhered to the requirements of Labour Law of the People's Republic of China and carried out recruitment exercises and employee management. Each employee shall fill in a recruitment form for the collecting of relevant data and information, which will be verified by our human resources department to avoid any inaccurate information. By doing so, we are able to recruit suitable candidates in accordance with work requirements and the applicants' expectations.

Operating Practices

B5. Supply Chain Management

Our Group has put in place a stringent tendering process and supplier approval system as a fair and transparent platform to ensure the selection of the best suppliers of equipment, materials and service procurement.

Material suppliers of our Group are mainly based in China, the United States, Canada, Japan and European countries. Suppliers are selected according to a clear and strict set of criteria, such as qualification, quality management system, operation capacity, availability of sample, pricing, delivery guarantee, and quality of products and services, to ensure the purchased products and services meet the product quality assurance. Our Group also conducts a comprehensive supplier assessment based on the findings from visiting the production sites of suppliers to select the best suppliers. Our Group also examines suppliers and prepares record reports to monitor the overall performance of the selected suppliers as evidence to support the selection and renewal of cooperation.

B6. Product Responsibility

Customer first is always our priority. To offer premier services to our customers, the Group purchases standardised materials carefully so as to provide quality products to our customers. All products produced by the plant are inspected by Department of Quality Control intensively.

The Group maintains good cooperation relationships with customers. Since the commencement of business, the Group has kept excellent after-sale services to uphold its commitment to customers in the areas of product quality, safety and assurance, so that we could satisfy our customers' expectation in a great extent.

Meanwhile, our customers' particulars are appropriately safeguarded, and a set of privacy policy has been put in place. The Department of Process and Information Technology of the Group has formulated a comprehensive protection policy for all data, in an attempt to provide sufficient protection and confidentiality measures for the all corporate data and proprietary information as well as to safeguard the rights of employees, customers and business partners. Access permissions are clearly defined to restrict any information retrieval from the system or virtual data room.

Our Group has adopted an all-around enterprise resource planning system to ensure the effectiveness of each procedure and to maintain the integrity of information. Our Group strictly adheres to rules in respect of data collection, use, handling and storage to ensure its safety.

B7. Anti-corruption

Our Group guarantees that all its business is free from improper influence. Directors and employees shall closely observe our code of conduct and the requirements of anti-corruption regulations by our Group to prevent potential bribery, extortion, fraud and money laundering. The code of conduct of our Group expressly states that:

- Directors and employees should be integral and committed to their responsibilities and are prohibited to acquire improper benefits with their authority and power.
- Employees are prohibited from participating in income generating activities in private, taking up part-time positions with remunerations from other economic entities and engaging in paid agency activities. Registration of or investment in companies competing with the Company is prohibited.
- Employees should observe the requirements of the management and use of public property and are prohibited from using public resources to satisfy private needs.
- Directors and employees shall be committed to frugality and avoid extravagance, overspending, squandering public fund and wastefulness.
- a committee primarily responsible for anti-corruption is established to examine, oversee and assess the system formulation and implementation.

Community

B8. Community Investment

Our Group has entered into close cooperation agreements with various institutions to provide students with opportunities of visits and internship as well as offer promising career opportunities to them.

Report of the Audit Committee

MEMBERS

The audit committee of our Company consists of the three independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie, with Ms. Shan Xueyan sitting as the chairlady 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 2017, members of the committee shall, among other things, oversee our Group's relationship with its external auditor, review the preliminary results, interim results and annual financial statements, review the scope, extent and effectiveness of our Group's internal audit functions and risk management, and, where necessary, commission independent investigations by legal advisers or other professionals.

MEETINGS

Two audit committee meetings were held during FY2017 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 FY2017 and up to the date of this report:

- reviewed the consolidated financial statements for FY2016;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2017;
- reviewed the external auditor's audit plan, letter of representation and audit engagement letter for FY2017;
- considered and approved the external audit fees for FY2017;
- reviewed our Company's internal control and risk management systems; and
- reviewed the "Connected Transactions" set out on pages 50 to 51 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 auditor of our Company, Grant Thornton Hong Kong Limited, 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 effective risk management and internal control systems 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 AGM, Grant Thornton Hong Kong Limited be re-appointed as our Company's external auditor for the year ending 31 December 2018.

For FY2017, the fee paid or payable to the external auditor of our Company in respect of the audit services duplicated and non-audit services provided amounted to approximately RMB1.2 million and RMB0.1 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 the 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. Wang Changhai	General manager of our Group
Mr. Zhang Zengguo	Deputy general manager of our Group
Non-executive Directors	
Mr. Xu Leihua	
Mr. Li Hengwen	
Independent non-executive Directors	
Ms. Shan Xueyan	Chairlady 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	Chairlady of the nomination committee and a member of the audit committee

EXECUTIVE DIRECTORS

Mr. Wang Dongxing, aged 55, 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 61, 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. Wang Changhai, aged 47, is an executive Director and the general manager of our Group. He has been appointed as a Director on 29 February 2016. Mr. Wang joined our Group in 2001 and he has 17 years of experience in the paper products industry and is very familiar with the operations of the Group. Mr. Wang is currently a General Manager of the Group and is responsible for the overall management of the Group. He had been a manager and an assistant manager of the Group prior to the promotion to the deputy general manager of domestic sales in 2003.

Mr. Zhang Zengguo, aged 52, is an executive Director and the deputy general manager of our Group and is responsible for Subsidiary 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. Xu Leihua, aged 54, is a non-executive Director of our Group. Mr. Xu was appointed as a Director on 5 June 2015. Mr. Xu obtained an undergraduate qualification of computer science and technology from Wuhan University of Science and Technology in 2002. He also obtained the certificate of accounting professional in China in 1994.

Mr. Xu is currently a secretary of the party committee and supervisors of Hubei Mailyard Share Co., Ltd ("Hubei Mailyard"), a company listed on the main board of the Shanghai Stock Exchange (Stock code: 600107). He joined Hubei Mailyard in July 2000 and served as a director and general manager and a vice general manager and secretary to the board. Prior to that, he served as the head of investment securities department of Daye Special Steel Co., Ltd, a company listed on the main board of the Shenzhen Stock Exchange (Stock code: 000708) from March 1995 to June 2000. He also worked at the finance department and the audit department of Ye Gang Group Company Limited from July 1985 to February 1995.

Mr. Li Hengwen, aged 38, is a non-executive Director of our Group. Mr. Li was appointed as a Director on 5 June 2015. Mr. Li currently serves as the Chief Financial Officer of Shandong Fengyuan Chemical Co., Ltd (a company listed on SME board of Shenzhen Stock Exchange, Stock code: 002805) Prior to that, he was the head of the finance department and the assistant of the general manager of China Shanshui Cement Group Limited (中國山水水泥集團有限公司), a company listed on the main board of the Stock Exchange of Hong Kong Limited (Stock code: 691). He had worked in Shandong Huide Certified Public Accounting Ltd (山東匯德會計師事務所) and KPMG Huazhen (Special General Partnership) (畢馬威華振會計師事務所) for ten years.

Mr. Li obtained a bachelor's degree in management from the Faculty of Economics of Qingdao University in 2002. Mr. Li is a member of the Chinese Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zefeng, aged 57, 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 and the chairman of Shangdong Paper Manufacturing Industry Association. He previously served as the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group.

Ms. Jiao Jie, aged 37, 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 chief financial officer of iClick Interactive Asia Group Limited, a company listed on Nasdaq (stock code: ICLK) and is responsible for corporate finance and legal affairs. Prior to that, she was joint company secretary and general legal counsel of ArtGo 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 January 2010 to February 2012, Ms. Jiao was the chief legal 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, and Chartered Financial Analyst qualification in September 2014.

Ms. Shan Xueyan, aged 40, is an independent non-executive Director. Ms. Shan joined our Group in 2016 and was appointed as a Director on 15 December 2016. Ms. Shan is also the chairlady of the audit committee and a member of the remuneration committee. Ms. Shan has over 15 years of experience in accounting and auditing. Currently, Ms. Shan is the audit supervisor of Shouguang Shengcheng Certified Public Accountants ("Shouguang Shengcheng") (壽光聖誠有限責任會計師事務所), which she joined in July 2001. At Shouguang Shengcheng, Ms. Shan is mainly responsible for auditing sizeable enterprises and government projects, and providing finance and tax consultancy services to enterprises in China. Ms. Shan graduated with a Bachelor of Engineering degree from the Tsingtao Polytechnic University in July 2001. She is a member of the Chinese Institute of Certified Public Accountants and has been qualified as a senior accountant since 2011.

SENIOR MANAGEMENT

Mr. Chen Xiaojun, aged 49, is the deputy general manager of our Group and is responsible for purchasing 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 46, 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 was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

Mr. Zhang Hongming, aged 47, is the deputy general manager of our Group and is responsible for the management of a subsidiary of our Group. He was previously responsible for the domestic sales and production management of our Group. Mr. Zhang joined our Group in 2001.

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael, aged 41, 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 the 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 Limited (Stock Code: 0042), respectively. He also acted as a company secretary of Birmingham Sports Holdings Limited (Stock Code: 2309) whose shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited from June 2015 to October 2016. 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, and New Wisdom Holding Company Limited (Stock Code: 8213), which is listed on the GEM Board of the Stock Exchange of Hong Kong Limited.

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for FY2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE INDICATORS

A business review and an analysis on the financial key performance indicators are set out in the section headed "Chairman's Statement" on pages 8 to 9, and the section headed "Management Discussion and Analysis" on pages 12 to 17. These discussions form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The consolidated results of our Group for FY2017 are set out in the consolidated financial statements on page 59.

DIVIDEND

The Board recommended the payment of a final dividend of HK7 cents per ordinary share for FY2017 (FY2016: HK4 cents).

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The register of members of our Company will be closed from 28 May 2018 to 31 May 2018, both days inclusive, for the purpose of determining entitlement to attend the AGM, during which no transfer of shares of our Company will be registered. In order to qualify for attending and voting at the AGM, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 25 May 2018.

Notice of the AGM will be published on our website at www.sunshinepaper.com.cn and on the website of the Stock Exchange at www.hkexnews.hk, and dispatched to the shareholders in due course.

In relation to the final dividend

Shareholders whose names appear on the Company's register of members on 8 June 2018 will qualify for the proposed final dividend. The register of members of our Company will be closed from 7 June 2018 to 8 June 2018, for the purpose of determining entitlement to the proposed final dividend, during which no transfer of shares of our Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 6 June 2018. The proposed final dividend (the payment of which is subject to the Shareholders' approval at the AGM) is payable on or about 20 June 2018 to the shareholders whose names appear on the register of members of the Company on 8 June 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

The following principal risks and uncertainties facing the Company are in addition to those set out in notes 40 and 41 to the consolidated financial statements.

Business risk

Downturn pressure on China's economy and price competition from other peers are the crucial elements of business risk. These two negative factors result in the uncertainties of sales and profit margin performances of our Group. The Board will regularly review overall management and implement appropriate strategies to minimize risks exposure.

Loss of key individuals

Employees are one of the most important assets of our Group and their performances affect the sustainability of our Group's business. Our Group emphasizes the importance of attracting skilled and experienced talents by offering competitive remuneration packages, safe and pleasant working environment, and career development.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Over the years, our Group has been fully committed to environmental protection. We are committed to preserving and protecting the environment in every aspect of our operation by implementing various measures and controls, including periodic meetings to review environmental issues in our plants and updated environmental laws and regulations.

Our Group will continue to allocate resources to ensure high environmental standards are persistently met in the key areas including production process, water and electricity consumption, waste water treatment and emission control.

RESERVES

Details of the change in reserves of our Group for FY2017 are set out in the consolidated financial statements on pages 62 and 63.

DONATIONS

Our Group had no donation for charitable purpose during FY2016 and FY2016.

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 FY2017 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 FY2017 are set out in note 38 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 144.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 49 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 FY2017, neither our Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of our Company.

DIRECTORS

The Directors who held office during FY2017 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. Wang Changhai *(General manager of our Group)*
Mr. Zhang Zengguo *(Deputy general manager of our Group)*

Non-executive Directors

Mr. Xu Leihua
Mr. Li Hengwen

Independent non-executive Directors

Ms. Shan Xueyan
Mr. Wang Zefeng
Ms. Jiao Jie

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. Pursuant to Article 87 of the Articles, Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Wang Changhai shall retire from office at the AGM and being eligible for re-election, will offer themselves for re-election at the AGM.

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 2017 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 19 November 2016 with our Company for a term of three years commencing on 19 November 2016 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. Wang Changhai has signed a service contract dated 29 February 2016 with our Company for a term of three years commencing on 29 February 2016 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

The annual salary and bonus of each executive Director shall be determined by our Board and subject to the annual review by the remuneration committee of our Company.

Each of Mr. Xu Leihua and Mr. Li Hengwen has signed a letter of appointment dated 5 June 2015 with our Company under which he has agreed to act as a non-executive Director for a period of three years, commencing on 5 June 2015, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Wang Zefeng has signed a letter of appointment dated 12 December 2016 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 2016, 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 2017 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 2017, unless terminated in accordance with the terms and conditions specified in such letter.

Ms. Shan Xueyan has signed a letter of appointment dated 15 December 2016 with our Company under which she has agreed to act as an independent non-executive Director for a period of three years, commencing on 15 December 2016, unless terminated in accordance with the terms and conditions specified in such letter.

Details of directors' emolument for each of our Directors for FY2017 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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2017, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

Name of Director	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Beneficial owner	18,425,500	2.25%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	3,840,000	0.47%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	22,265,500	2.72%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	22,265,500	2.72%
Mr. Wang Changhai	Interest of a party to an agreement to acquire interests in our Company(1)	321,687,052	39.26%
	Beneficial owner	3,840,000	0.47%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	18,425,500	2.25%

Notes:

1. A group of 18 individuals comprising Mr. Chen Xiaojun, Mr. Guo Jianlin, Ms. Li Hua, Mr. Li Zhongzhu, Mr. Lu Yujie, Mr. Ma Aiping, Mr. Sang Ziqian, Mr. Shi Weixin, Mr. Sun Qingtao, Mr. Wang Changhai, Mr. Wang Dongxing, Mr. Wang Feng, Mr. Wang Yilong, Mr. Wang Yongqing, Ms. Wu Rong, Mr. Zhang Zengguo, Mr. Zheng Fasheng and Mr. Zuo Xiwei (the "Controlling Shareholders Group") entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007 (the "Concert Parties Agreement"), pursuant to which each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in 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, Mr. Zhang Zengguo and Mr. Wang Changhai, is deemed to be interested in the 321,687,052 Shares held by China Sunrise.

2. Under section 318 of the SFO, Mr. Shi Weixin and Mr. Zhang Zengguo, as parties to the Concert Parties Agreement, are deemed to be interested in the 22,265,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai; Mr. Wang Dongxing is deemed to be interested in the 3,840,000 Shares held by Mr. Wang Changhai; and Mr. Wang Changhai is deemed to be interested in the 18,425,500 Shares held by Mr. Wang Dongxing.

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 2017, 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	321,687,052	39.26%
China Sunshine(1)	Long	Interest of a controlled corporation	321,687,052	39.26%
Controlling Shareholders Group(2)	Long	Interest of a party to an agreement to acquire interest in our Company	321,687,052	39.26%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	22,265,500	2.72%

Notes:

1. As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 321,687,052 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 321,687,052 Shares held by China Sunrise. Further, Mr. Wang Dongxing is interested in 18,425,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 3,840,000 Shares as beneficial owner. Other members of the Controlling Shareholders 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.

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 2017.

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. The Share Option Scheme has expired as at the date of this report.

No option was granted, exercised, cancelled or lapsed during FY 2017. There was no outstanding option granted under the Share Option Scheme as at 31 December 2017, and up to date of this report.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 79,500,000 shares (after adjustment pursuant to the bonus issue of the Company completed on 2 December 2010), representing approximately 9.70% of the issued share capital of the Company.

SHARE AWARD SCHEME

A share award scheme of the Company (the "Share Award Scheme") was adopted by the Board on 27 June 2017 (the "Adoption Date"). The purpose of the Share Award Scheme is to recognise the contributions of certain persons ("Eligible Participants", as mentioned in the following paragraph) and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

The Board may from time to time at its absolute discretion select any Eligible Participant(s) to participate in the Scheme. Eligible Participants include any Director (whether executive or non-executive), senior management and employees of the Company or its subsidiaries (including but not limited to office managers, regional directors, senior managers, office directors, general managers and chief executive officers), but excluding the following persons: (i) any seconded employee, part-time employee or non-full time employee of the Group; (ii) any employee of the Group who at the relevant time has given or been given notice terminating his office or directorship, as the case may be; and (iii) any other person that the Board may determine from time to time.

Subject to the limit on the size of the Share Award Scheme as set out below, the Board shall determine a number of awarded shares (the "Awarded Shares") which it wishes to be the subject of an Award. The Board shall notify a selected participant (the "Selected Participant") of the terms and conditions of any Award, including any vesting schedule, by a letter of grant, and such Award shall be deemed to be accepted by the Selected Participant when the Company receives a duplicate of the letter of grant signed by such Selected Participant.

The Awarded Shares shall be allotted and issued by the Company at the end of each vesting period at par value or any other higher amount as determined by the Board, by using (i) the general mandate granted to the Board by the shareholders in general meetings of the Company from time to time; or (ii) where required by applicable law, the Listing Rules, the Articles or any rule of the Company, specific mandate(s) to be granted to the Board by the shareholders in general meetings of the Company from time to time.

Any Awarded Shares shall vest in the relevant Selected Participant(s) in accordance with the schedule (the date or each such date on which Awarded Shares are to vest as set out in such schedule being a "Vesting Date") determined by the Board at its sole discretion at the date on which that Selected Participant is selected for participation in the Scheme, provided that both of the following conditions have been and remain satisfied at the relevant dates: (i) such further conditions as the Board at its sole discretion may have stipulated and which have been communicated to the Selected Participant in writing on or before the date on which the Selected Participant is notified of the Award; and (ii) that the Selected Participant remains on the Vesting Date (or, as the case may be, on each relevant Vesting Date) an Eligible Participant of the Group. In addition, no Shares shall be vested in the relevant Selected Participant if the Selected Participant has been terminated, summarily dismissed, convicted for any criminal offence, has become bankrupt or has been charged, convicted or held liable for any offence under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or any other similar applicable laws or regulations in force from time to time.

The Board shall not make any further Award which will result in the total number of Shares awarded by the Board under the Scheme representing in excess of 10% of the issued share capital of the Company as at the Adoption Date. Awards lapsed in accordance with the terms of the Share Award Scheme will not be counted for the purpose of calculating the 10% limit. The Board may seek approval by the Shareholders in general meeting for refreshing the 10% limit under the Share Award Scheme. Unless approved by the Shareholders in a general meeting, the maximum number of Awarded Shares which may be subject to Award(s) made to a single Selected Participant in any 12-month period shall not in aggregate exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date. As at the date of this report, the remaining life of the Share Award Scheme is approximately 9 years and 2 months.

Further details of the Share Award Scheme are set out in the Company's announcement dated 27 June 2017.

On 21 July 2017, the Board has resolved to grant a total of 16,774,000 Awarded Shares to three Selected Participants under the Share Award Scheme at par value, of which, (i) 15,972,000 Awarded Shares were awarded to two executive Directors, being Mr. Wang Dongxing and Mr. Wang Changhai by way of allotment and issue of new Shares under the specific mandate and (ii) 802,000 Awarded Shares were awarded to Mr. Liu Wenzheng, an employee of the Group by way of allotment and issue of new Shares under the specific mandate. Such issue and allotment of 16,774,000 Awarded Shares has been approved by the Shareholders at the extraordinary meeting on 29 September 2017 and was completed on 4 October 2017. Further details are set out in the Company's circular dated 1 September 2017.

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.

None of our directors, their respective close associates, or any shareholder of the Company who, to the knowledge of our directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers and suppliers.

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 45 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 28 January 2016 with Weifang Shengtai Medicine Co., Ltd ("Shengtai Medicine"), who is interested in 20% of the registered capital of Changle Shengshi Thermoelectricity Co., Ltd ("Shengshi Thermoelectricity"). The remaining 80% of the registered capital of Shengshi Thermoelectricity is held by Century Sunshine, an indirect 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 28 January 2016 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 2016 to 31 December 2018, 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 Century 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 2017, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB75.9 million, which was below the annual cap of RMB130.6 million for the year ended 31 December 2017.

(b) An electricity supply agreement dated 28 January 2016 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 2016 to 31 December 2018, 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 Century 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 electricity is fair and reasonable and on normal commercial terms.

For the year ended 31 December 2017, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB46.0 million, which was below the annual cap of RMB71.4 million for the year ended 31 December 2017.

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 have reported the factual findings on these procedures to our Board.

The auditor of the Company had provided a letter to the Directors, confirming that the continuing connected transactions:

(1) had been approved by the Board;

(2) were in accordance with the pricing policies of our Group;

(3) had been entered into in accordance with the relevant agreements governing these transactions; and

(4) had not exceeded the annual caps for the transactions.

The Board also hereby confirms that the auditor's letter relating to the above continuing connected transactions has been submitted to the Stock Exchange pursuant to Rule 14A.56 and 14A.57 of the Listing Rules.

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.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2016 and 2017 have been audited by Grant Thornton Hong Kong Limited, who will retire at the forthcoming annual general meeting of our Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Dongxing
Chairman

Hong Kong, China
27 March 2018

Independent Auditor's Report

Grant Thornton
致同

To the members of China Sunshine Paper Holdings Company Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 143, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

The Key Audit Matters	How the matter was addressed in our audit
Carrying values of investment in a joint venture and the receivables therefrom *Refer to note 4.5, 21, 28 and 45(b) to consolidated financial statements.*	
The Group has joint interest in Sunshine Oji (Shouguang) Specialty Paper Co., Ltd (the "JV") and it is carried at RMB203,542,000 in the consolidated financial position at reporting date. The Group also has receivables totalling RMB142,847,000 from the JV, resulting a collective financial interest in the JV of RMB346,389,000 at reporting date, which represents 15.7% of net assets value (RMB2,207,135,000) of the Group. The JV was loss-making since its incorporation and up to 2016 and recorded a profit for the current year of RMB20,238,000. There was no impairment loss made on these carrying amounts based on the management's judgment that the JV has a positive outlook to carry on making profit in the future. We have identified the carrying values of the JV and the receivables from the JV as a key matter to our audit considering materiality of the balances and the extent of management judgment exercised.	We reviewed management's assessment of the indicators of positive outlook and evaluated the significant assumptions used. We reviewed the profit and cash flow forecasts projected by the management and corroborated the historical financial information in which the forecasts grounded and evaluated assumptions of the projected revenue streams. We also reviewed the accuracy of prior year forecasts against actual results occurred to date.

KEY AUDIT MATTERS (continued)

The Key Audit Matters	How the matter was addressed in our audit

Going concern

Refer to note 4.1 and 5 to consolidated financial statements.

The Group recorded net current liabilities of RMB1,503,564,000 at reporting date. The Group employs high level of debt financing in its operations including bank borrowings, discounted bills financing and corporate bond of RMB2,765,180,000, RMB1,455,751,000 and RMB397,321,000 respectively at reporting date. RMB4,107,720,000 of these debts is repayable in one year.

All these factors draw attention of users of these consolidated financial statements and reasonably cast doubts in the Group's ability to maintain its liquidity position and, consequently, the ability to continue its operations as a going concern which lies as the fundamental basis these consolidated financial statements prepared on.

In order to evaluate the Group's liquidity position and assess the ability to continue its operation in foreseeable future, the directors reviewed the likelihood of renewing existing and obtaining additional bank facilities and prepared cash flow forecasts to demonstrate sufficient working capital over time horizon. In the process, significant judgment exercised by management.

We have identified the directors' going concern assessment as a key matter to our audit considering its fundamentality of and pervasive impact on consolidated financial statements.

We reviewed and assessed the Group's capital management policy and risk management policies over liquidity. In assessing the feasibility of these policies, we considered the financial positions of the Group in prior periods. We concurred that these policies were consistently applied in prior periods and objective of these policies were achieved. We assessed the management's claim of relationship with banks and reviewed evidence of subsequent negotiation with banks including agreements to extend due date of bank borrowings of RMB546,720,000 for one year.

We obtained cash flow forecasts by management and:

— assessed the appropriateness of key assumptions used based on our knowledge of the business, industry and historical data;

— reconciled input data to underlying evidence, such as approved budgets, banking facility agreements, confirmations from related parties;

— evaluated the downside analysis for the most sensitive factors including future sale prices and availability of bank facilities;

— compared prior years cash flow projections with actual occurrence to consider accuracy of management's prior projections and if the projections were overly optimistic.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagements and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

27 March 2018

Kwong Kam Wing Kelvin
Practising Certificate No.: P05373

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	6 & 7	**5,781,857**	4,223,298
Cost of sales		**(4,534,623)**	(3,396,328)
Gross profit		**1,247,234**	826,970
Other income	8	**167,092**	121,378
Other gains or losses	8	**(24,840)**	(28,229)
Distribution and selling expenses		**(269,171)**	(277,836)
Administrative expenses		**(296,947)**	(191,212)
Loss on fair value changes of an investment property	16	**(18,908)**	(4,516)
Share of profit/(loss) of a joint venture	28	**12,695**	(12,533)
Finance costs	9	**(252,613)**	(248,707)
Profit before income tax	12	**564,542**	185,315
Income tax expense	11	**(162,918)**	(58,756)
Profit and total comprehensive income for the year		**401,624**	126,559
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**396,031**	123,111
Non-controlling interests		**5,593**	3,448
		401,624	126,559
Earnings per share for profit attributable to owners of the Company during the year			
Basic and diluted (RMB)	14	**0.49**	0.15

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,460,983**	3,353,933
Investment property	16	**162,879**	181,712
Prepaid lease payments	17	**327,046**	313,806
Goodwill	18	**30,326**	18,692
Deferred tax assets	19	**11,498**	8,184
Interest in a joint venture	28	**203,542**	70,847
Available-for-sale financial assets	20	**—**	8,000
Deposits and other receivables	21	**265,075**	366,407
		4,461,349	4,321,581
Current assets			
Prepaid lease payments	17	**7,317**	5,889
Inventories	22	**768,055**	345,246
Trade receivables	23	**425,576**	310,472
Bills receivables	24	**765,598**	532,016
Prepayments and other receivables	25	**165,778**	178,701
Income tax recoverable		**313**	—
Restricted bank deposits	26	**1,481,484**	1,445,592
Bank balances and cash	26	**474,519**	592,175
		4,088,640	3,410,091
Current liabilities			
Trade payables	29	**853,282**	936,017
Bills payables	30	**245,000**	225,000
Other payables	31	**135,779**	214,240
Payables for construction work, machinery and equipment		**37,792**	15,047
Income tax payable		**34,655**	22,047
Obligations under finance leases	32	**165,571**	88,510
Deferred income	33	**2,405**	2,758
Discounted bills financing	34	**1,455,751**	1,989,892
Bank borrowings	35	**2,551,969**	1,769,150
Other borrowing	36	**10,000**	11,000
Corporate bond	37	**100,000**	100,000
		5,592,204	5,373,661

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net current liabilities		**(1,503,564)**	(1,963,570)
Total assets less current liabilities		**2,957,785**	2,358,011
Capital and reserves			
Share capital	38	**73,779**	72,351
Reserves	39	**1,945,811**	1,543,704
Equity attributable to owners of the Company		**2,019,590**	1,616,055
Non-controlling interests		**187,545**	151,898
Total equity		**2,207,135**	1,767,953
Non-current liabilities			
Obligations under finance leases	32	**210,659**	94,774
Bank borrowings	35	**213,211**	65,000
Corporate bond	37	**297,321**	396,250
Deferred income	33	**18,665**	21,045
Deferred tax liabilities	19	**10,794**	12,989
		750,650	590,058
Total equity and non-current liabilities		**2,957,785**	2,358,011

Approved and authorised for issue by the board of directors on 27 March 2018

Wang Dongxing
Director

Wang Changhai
Director

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	72,351	610	695,682	(2,776)	79,992	19,806	81,756	5,429	560,673	1,513,523	105,097	1,618,620
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	14,728	14,728
Capital contribution by non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	30,000	30,000
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,356)	(1,356)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(5)	(5)
Dividend paid to owners of the Company (note 13)	–	–	–	–	–	–	–	–	(20,579)	(20,579)	–	(20,579)
Dividend paid to non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	(14)	(14)
Transfer to retained earnings	–	–	–	–	–	(12,791)	–	–	12,791	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	26,226	–	(26,226)	–	–	–
Transactions with owners	–	–	–	–	–	(12,791)	26,226	–	(34,014)	(20,579)	43,353	22,774
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	123,111	123,111	3,448	126,559
At 31 December 2016	72,351	610	695,682	(2,776)	79,992	7,015	107,982	5,429	649,770	1,616,055	151,898	1,767,953

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital RMB'000	Capital redemption reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January	72,351	610	695,682	(2,776)	79,992	7,015	107,982	5,429	649,770	1,616,055	151,898	1,767,953
Acquisition of a subsidiary (note 47)	–	–	–	–	–	–	–	–	–	–	38,245	38,245
Acquisition of additional interest in subsidiaries	–	–	–	–	2,566	–	–	–	–	2,566	(16,066)	(13,500)
Capital contribution by non-controlling interests of a subsidiary of the Company	–	–	–	–	4,098	–	–	–	–	4,098	7,902	12,000
Dividend paid to owners of the Company (note 13)	–	–	–	–	–	–	–	–	(27,863)	(27,863)	–	(27,863)
Dividend paid to non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	(27)	(27)
Recognition of equity-settled share-based payment	1,428	–	27,275	–	–	–	–	–	–	28,703	–	28,703
Transfer	–	–	–	–	–	–	4,351	(4,351)	–	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	42,186	–	(42,186)	–	–	–
Transactions with owners	1,428	–	27,275	–	6,664	–	46,537	(4,351)	(70,049)	7,504	30,054	37,558
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	396,031	396,031	5,593	401,624
At 31 December 2017	73,779	610	722,957	(2,776)	86,656	7,015	154,519	1,078	975,752	2,019,590	187,545	2,207,135

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

As at 31 December 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit before income tax	564,542	185,315
Adjustments for:		
Interest income	(41,622)	(52,574)
Finance costs	255,237	251,242
Depreciation of property, plant and equipment	253,412	243,070
Amortisation of prepaid lease payments	7,550	5,804
Loss on disposal and written off of property, plant and equipment	49,733	20,038
Release of deferred income	(2,733)	(2,680)
Gain on bargain purchase from business combination	–	(91)
Gain on disposal of a subsidiary	–	(8,067)
Non-controlling interests written off upon deregistration of a subsidiary	–	(1,356)
Loss on fair value change of an investment property	18,908	4,516
(Reversal)/Allowance for impairment of trade receivables	(781)	1,547
Share of (profit)/loss of a joint venture	(12,695)	12,533
Equity-settled share-base payment expenses	28,703	–
Operating cash flows before movements in working capital	1,120,254	659,297
(Increase)/Decrease in inventories	(415,166)	40,665
(Increase)/Decrease in trade receivables	(112,691)	110,041
Decrease in bills receivables	(233,582)	(184,467)
Decrease in prepayments and other receivables	173,680	20,734
(Decrease)/Increase in trade payables	(82,969)	117,293
Increase in bills payables	20,000	51,000
(Decrease)/Increase in other payables	(75,983)	75,944
Cash generated from operations	393,543	890,507
Income tax paid	(157,393)	(42,170)
Net cash from operating activities	236,150	848,337

As at 31 December 2017

	2017 RMB'000	2016 RMB'000
Investing activities		
Interest received	22,966	32,292
Proceeds from disposal of property, plant and equipment	7,089	7,626
Proceeds from disposal of a subsidiary	–	60,500
Government grants received	–	1,000
Purchase of property, plant and equipment	(337,067)	(175,098)
Addition for an investment property	(75)	(706)
(Increase)/Decrease in restricted bank deposits	(35,892)	60,920
Loan to a third party/a related company	(25,000)	(36,916)
Repayment from a third party/a related company	8,000	–
Repayment from a joint venture	–	50,000
Capital injection to a joint venture	(120,000)	–
Increase in guarantee deposits for obligations under finance leases	(6,430)	(10,500)
Disposal/(Acquisition) of available-for-sale financial assets	8,000	(8,000)
Acquisition of additional interest in a subsidiary	(13,500)	–
Net outflow of cash and cash equivalents in respects of the acquisition of the subsidiaries	(36,829)	(21,986)
Net cash used in investing activities	(528,738)	(40,868)
Financing activities		
Interest paid	(260,963)	(252,877)
Repayment of bank and other borrowing	(2,591,179)	(2,104,720)
Repayment of obligations under finance lease	(154,654)	(86,284)
Repayment of corporate bond	(100,000)	–
Proceeds from capital contribution of non-controlling interests of a subsidiary of the Company	12,000	30,000
New bank borrowings raised	3,484,159	1,785,040
Net proceeds from sale and finance lease back transactions	347,600	127,000
Decrease in discounted bills financing	(534,141)	(20,237)
Dividend paid to owners of the Company	(27,863)	(20,579)
Dividend paid to non-controlling interests of a subsidiary of the Company	(27)	(14)
Net cash generated from/(used in) financing activities	174,932	(542,671)
Net (decrease)/increase in cash and cash equivalents	(117,656)	264,798
Cash and cash equivalents at beginning of the year	592,175	327,377
Cash and cash equivalents at end of the year, representing bank balances and cash*	474,519	592,175

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

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"). 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/generation and sale of paper products, electricity and steam.

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The IASB has issued a number of new and revised IFRS. The Group has adopted all these revised IFRS, which are effective for the accounting period beginning on or after 1 January 2017:

Amendments to IAS7	Disclosure Initiative
Amendments to IAS12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements Project	Amendments to IFRS 12 included in Annual Improvements 2012-2014 Cycle

Other than as noted below, the adoption of the new and amended IFRS had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The amendments to IAS 7 require an entity to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 27. Apart from this additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

At the date of authorisation of these consolidation financial statements, certain new and IFRSs have been published but are not effective, and have not been adopted early by the Group.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 15	Revenue from contracts with customers[1]
Amendments to IFRS 15	Classifications to IFRS 15 Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IAS 19	Employee Benefits[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfers of Investment Property[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet been determined

The Directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial instruments

IFRS 9 Financial instruments ("IFRS 9") addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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 ("IAS 39") to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. 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 fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group currently classifies its financial assets into loans and receivables which are measured at amortised cost. The Group's debt instruments currently classified as measured at amortised cost which meet the condition for classification at amortised cost under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial instruments (continued)

IFRS 9 replaces IAS 39. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables and loan commitments. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and the related clarification to IFRS 15 (hereinafter referred to as "IFRS 15") presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. IFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 4.6. Currently, revenue arising from provision of services is recognised over time, whereas revenue from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

***(a) Timing of revenue recognition** (continued)*

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognise revenue from sale of goods and service income.

(b) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognise revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The directors do not consider that the application of IFRS 15 will likely to have significant financial impact on the Group's financial performance and financial position for the current and prior periods. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

IFRS 16 Leases

IFRS 16 Leases ("IFRS 16") will replace IAS 17 and three related Interpretations.

As disclosed in note 4.7, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 16 Leases (continued)

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases of rental premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease. As disclosed in note 44, as at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB7,877,000, are payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt IFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

3. STATEMENT OF COMPLIANCE

These annual consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

A summary of the significant accounting policies adopted by the Group is set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost except for certain properties and financial instruments which are measured at fair values. The measurement bases are fully described in the accounting policies below.

The Group has net current liabilities of approximately RMB1,503,564,000 at 31 December 2017. 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 reporting date. In addition, although most of the existing bank facilities will expire in 2018, 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, as stated in note 41(d) and 50, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by the banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Control is achieved when the Company:

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation (continued)

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation (continued)

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

4.3 Business combinations

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 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.

4.5 Investment in joint venture

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

The results and assets and liabilities of joint venture are incorporated in these consolidated financial statements using the equity method of accounting. 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 joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Investment in joint venture (continued)

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 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. 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 joint venture is included in the determination of the gain or loss on disposal of the 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 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 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.

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.

4.6 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 consolidated statement of financial position under current liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Revenue recognition (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

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

4.7 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 obligations under finance leases.

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).

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Leasing (continued)

Leasehold land and building

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

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

4.8 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.

4.9 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 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.

4.11 Employee benefits

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"), are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately.

4.12 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Taxation (continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 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.

4.14 Investment property

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Investment property (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.

4.15 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 of disposal 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.

4.16 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. 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, 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 of 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 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 and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 45 days, observable changes in national or local economic conditions that correlate with default on receivables.

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.

Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 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 bills financing, trade payables, bills payables, other payables, corporate bond, payables for construction work, machinery and equipment and obligations under finance leases) are subsequently measured at amortised cost, using the effective interest method.

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.

4.18 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to a reporting entity if that person:

  (i) has control or joint control of the reporting entity;

  (ii) has significant influence over the reporting entity; or

  (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Related parties (continued)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

5. CRITICAL ACCOUNTING JUDGMENTS 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 judgments, 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 judgments in applying accounting policies

The following are the critical judgments, 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 4.1, 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 4.1 and the cash flow projections for the next twelve months from the date of 31 December 2017. Such projections about the future inherently involve uncertainties in the sale prices of finished goods, the purchasing prices of the raw materials, and the renewal of banking facilities. The Directors have reviewed the relevant available information and key assumptions used in the cash flow projections for the twelve months after end of the reporting period, and have concluded that the use of going concern basis for preparation of the consolidated financial statements for the year 2017 remains proper.

Deferred taxation from the land appreciation tax on an investment property

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

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

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.

Impairment of goodwill

Determining whether goodwill has been impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Any change in the estimates would increase or decrease in the provision for impairment loss and affect the Group's results in future years. As at 31 December 2017, the carrying amount of goodwill is approximately RMB30,326,000 (2016: RMB18,692,000). Details of the impairment of goodwill are disclosed in note 18.

Allowance 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 2017, the carrying amount of inventories is approximately RMB768,055,000 (2016: RMB345,246,000) (note 22).

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 2017, the aggregate carrying amount of loan to a third party/a related company, trade receivables, bills receivables and other receivables is approximately RMB1,294,802 (2016: RMB944,974,000). No allowance for impairment has been provided for loan to a third party/a related company, bills receivables and other receivables. Details of movements of allowance for impairment of trade receivables are disclosed in note 23.

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

Key sources of estimation uncertainty (continued)

Deferred tax assets

As at 31 December 2017, deferred tax assets of RMB11,498,000 (2016: RMB8,184,000) 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 RMB66,512,000 (2016: RMB37,802,000) 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 (note 19).

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.

Impairment on other receivables from a joint venture

The impairment assessment on other receivables from a joint venture (note 21) is based on the evaluation of collectability of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the business environment, operating conditions and the financing and business plans of the joint venture. As at 31 December 2017, the net carrying amount of the other receivables from a joint venture amounted to RMB142,847,000 (2015: RMB297,570,000).

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 2017

	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	**1,545,784**	**2,267,706**	**736,082**	**1,014,692**	**217,593**	**5,781,857**
Inter-segment revenue	**–**	**–**	**–**	**–**	**501,411**	**501,411**
Segment revenue	**1,545,784**	**2,267,706**	**736,082**	**1,014,692**	**719,004**	**6,283,268**
Segment profit	**303,712**	**605,636**	**157,742**	**149,646**	**57,614**	**1,274,350**

For the year ended 31 December 2016

	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	1,196,996	1,755,488	514,614	585,605	170,595	4,223,298
Inter-segment revenue	–	–	–	–	323,026	323,026
Segment revenue	1,196,996	1,755,488	514,614	585,605	493,621	4,546,324
Segment profit	206,652	424,885	90,810	87,624	36,430	846,401

7. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results (continued)

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 category and the profit before income tax earned by electricity and steam segment. The Group does not allocate certain other income, certain other gains or losses, distribution and selling expenses, certain administrative expenses, loss on fair value changes of an investment property, certain finance costs, to paper product segment and does not allocate income tax expenses to both the paper product segment and electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

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

	2017 **RMB'000**	2016 RMB'000
Profit		
Segment profit	**1,274,350**	846,401
Unrealised profit on inter-segment sales	**(92,634)**	(60,235)
	1,181,716	786,166
Distribution and selling expenses	**(269,171)**	(277,836)
Administrative expenses	**(275,726)**	(170,045)
Other income	**164,949**	118,191
Other gains or losses	**(15,937)**	(29,231)
Finance costs	**(215,076)**	(224,881)
Loss on fair value changes of an investment property	**(18,908)**	(4,516)
Share of profit/(loss) of a joint venture	**12,695**	(12,533)
Consolidated profit before income tax	**564,542**	185,315

The Group does not allocate depreciation of property, plant and equipment and amortisation 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 AND OTHER GAINS OR LOSSES

	2017 RMB'000	2016 RMB'000
Other income:		
Interest income on:		
Bank deposits	**24,968**	29,605
The balance with a joint venture (note i)	**16,654**	22,969
Total interest income	**41,622**	52,574
Rental income from an investment property and other properties	**1,502**	1,695
Government grants (notes ii & iii)	**123,968**	67,109
	167,092	121,378
Other gains or losses:		
Net foreign exchange gains/(losses)	**4,245**	(14,696)
Gain from sale of scrap materials, net	**15,627**	4,611
Loss on disposal and written off of property, plant and equipment	**(49,733)**	(20,038)
Reversal/(Allowance) for impairment of trade receivables (note 23)	**781**	(1,547)
Others	**4,240**	3,441
	(24,840)	(28,229)

Notes:

i. During the year ended 31 December 2017, 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) at a weighted average effective interest rate of 6.18% per annum (2016: 6.80% per annum).

ii. During the year ended 31 December 2017, 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 RMB82,768,000 (2016: RMB49,778,000) from local government for the purpose of supporting its operation.

iii. During the year ended 31 December 2017, 昌樂新邁紙業有限公司 (Numat Paper Industry Co., Ltd.), a subsidiary of the Company, obtained unconditional government subsidy of approximately RMB41,065,000 (2016: RMB15,536,000) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

9. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest expenses on:		
Discounted bills financing	**80,244**	86,124
Bank and other borrowings wholly repayable within five years	**121,030**	115,404
Obligations under finance leases	**15,032**	8,764
Corporate bond	**38,931**	40,950
	255,237	251,242
Less: Interest capitalised in construction in progress	**(2,624)**	(2,535)
	252,613	248,707

Borrowing costs capitalised during the year ended 31 December 2017 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 5.22% to 6.55% (2016: 5.22% to 7.20%) per annum to expenditure on construction in progress.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Directors' emoluments, disclosed pursuant to the Listing Rules, Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of Companies (Disclosure of Information about Benefits of Directors) Regulation 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)	Share-based compensation RMB'000	Total emoluments RMB'000
2017						
Executive directors:						
Wang Dongxing	50	779	–	1,587	21,837	24,253
Shi Weixin	50	68	–	–	–	118
Zhang Zengguo	50	317	13	378	–	758
Wang Changhai (General Manager) (note iii)	42	545	13	1,041	5,493	7,134
Non-executive directors:						
Li Hengwen	50	–	–	–	–	50
Xu Leihua	50	–	–	–	–	50
Independent non-executive directors:						
Wang Zefeng	50	–	–	–	–	50
Jiao Jie	50	–	–	–	–	50
Shan Xueyan (note v)	50	–	–	–	–	50
	442	1,709	26	3,006	27,330	32,513

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)	Share-based compensation RMB'000	Total emoluments RMB'000
2016						
Executive directors:						
Wang Dongxing	50	1,013	–	568	–	1,631
Shi Weixin	50	–	–	–	–	50
Zhang Zengguo	50	323	12	313	–	698
Wang Changhai (General Manager) (note iii)	–	648	11	399	–	1,058
Ci Xiaolei (note ii)	–	–	–	–	–	–
Non-executive directors:						
Li Hengwen	29	–	–	–	–	29
Xu Leihua	29	–	–	–	–	29
Independent non-executive directors:						
Leung Ping Shing (note iv)	103	–	–	–	–	103
Wang Zefeng	50	–	–	–	–	50
Jiao Jie	50	–	–	–	–	50
Shan Xueyan (note v)	–	–	–	–	–	–
	411	1,984	23	1,280	–	3,698

Notes:

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

ii. Mr. Ci Xiaolei has resigned as an executive director with effect from 29 February 2016.

iii. Mr. Wang Changhai has been appointed as an executive director with effect from 29 February 2016.

iv. Mr. Leung Ping Shing has resigned as an independent non-executive director with effect from 15 December 2016.

v. Ms. Shan Xueyan has been appointed as an independent non-executive director with effect from 15 December 2016.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, including 2 directors (2016: 3 directors), details of their emoluments are set out above. The emoluments of the remaining 3 (2016: 2) individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other allowances	2,940	1,375
Retirement benefits schemes contributions	13	23
Share-based compensation	1,373	—
	4,326	1,398

The above employees' emoluments were within the following band:

	2017 RMB'000	2016 RMB'000
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	1	—
HK$3,000,001 to HK$3,500,000	1	—

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

	2017 RMB'000	2016 RMB'000
Current tax		
PRC enterprise income tax	165,632	59,105
Under-provision in previous year	2,795	3,076
	168,427	62,181
Deferred tax credit (note 19)	(5,509)	(3,425)
	162,918	58,756

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% (2016: 25%).

11. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2017 and 2016 as the Group did not have any assessable profits subject to Hong Kong Profits Tax during both years.

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before income tax	564,542	185,315
Tax at the applicable income tax rate of 25% (2016: 25%)	141,136	46,329
Tax effect of expenses not deductible	33,568	22,234
Tax effect of share of result of a joint venture	(3,174)	3,133
Effect of tax concession granted to certain subsidiaries	(20,691)	(16,934)
Under provision in previous year	2,795	3,076
Utilisation of tax losses previously not recognised	—	(4,978)
Tax effect of tax losses not recognised	9,284	5,896
Tax charge for the year	162,918	58,756

Details of deferred tax charge for the current year are set out in note 19.

12. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after (crediting)/charging:

	2017 RMB'000	2016 RMB'000
Wages and salaries	212,504	156,708
Retirement benefits schemes contributions	33,320	44,485
Share-based compensation	28,703	—
Total staff costs (including the Directors' emoluments)	274,527	201,193
Cost of inventories recognised as an expense	4,225,875	3,231,489
Depreciation of property, plant and equipment	253,412	243,070
(Reversal)/Allowance for impairment of trade receivables	(781)	1,547
Amortisation of prepaid lease payments (note 17)	7,550	5,804
Auditor's remuneration	1,492	1,548
Net foreign exchange (gains)/losses	(4,245)	14,696
Rental income from an investment property and other properties	(1,502)	(1,695)
Gain on disposal of a subsidiary	—	8,067

13. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividend declared for distribution during the year:		
2016 final dividend — HK$0.04 per share (2016: 2015 final dividend — HK$0.03 per share)	**27,863**	20,579

A final dividend of HK$0.07 per share in respect of the year ended 31 December 2017 has been proposed by the Directors and is subject to the approval of the Company's shareholders in the forthcoming annual general meeting. A final dividend of HK$0.04 per share in respect of the year ended 31 December 2016 amounting to a total of HK$32,104,000 (equivalent to approximately RMB27,863,000) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 8 June 2017.

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit of RMB396,031,000 (2016: RMB123,111,000) for the year attributable to owners of the Company, and the weighted average number of 810,125,000 (2016: 802,588,000) ordinary shares in issue during the year.

There are no dilutive potential ordinary shares in issue for the year ended 31 December 2017 and 31 December 2016. The basic earnings per share equals to the diluted earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost				
At 1 January 2016	851,493	3,579,240	121,215	4,551,948
Additions	6,741	19,855	157,381	183,977
Transfers	76,717	100,616	(177,333)	—
Acquisition of a subsidiary (note 47c)	70,909	39,584	—	110,493
Transfer to prepaid lease payments (note 17)	—	—	(8,085)	(8,085)
Disposals and written off	(2)	(41,749)	(6,657)	(48,408)
At 31 December 2016 and 1 January 2017	1,005,858	3,697,546	86,521	4,789,925
Additions	12,701	50,352	299,383	362,436
Transfers	5,908	112,599	(118,507)	—
Acquisition of a subsidiary (note 47)	42,784	12,064	—	54,848
Disposals and written off	(21,735)	(100,662)	—	(122,397)
At 31 December 2017	**1,045,516**	**3,771,899**	**267,397**	**5,084,812**
Depreciation				
At 1 January 2016	164,697	1,048,969	—	1,213,666
Provided for the year	28,851	214,219	—	243,070
Eliminated on disposals and written off	—	(20,744)	—	(20,744)
At 31 December 2016 and 1 January 2017	193,548	1,242,444	—	1,435,992
Provided for the year	34,600	218,812	—	253,412
Eliminated on disposals and written off	(13,812)	(51,763)	—	(65,575)
At 31 December 2017	**214,336**	**1,409,493**	**—**	**1,623,829**
Carrying amount				
At 31 December 2017	**831,180**	**2,362,406**	**267,397**	**3,460,983**
At 31 December 2016	812,310	2,455,102	86,521	3,353,933

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, machinery and equipment	5–18	5%–20%

(ii) The net book value of property, plant and equipment includes an amount of RMB498,880,000 (2016: RMB392,037,000) in respect of assets held under finance leases.

(iii) Details of property, plant and equipment pledged are set out in note 42.

16. INVESTMENT PROPERTY

	Completed investment property RMB'000
Fair value	
At 1 January 2016	185,522
Additions	706
Net decrease in fair value recognised in profit or loss	(4,516)
At 31 December 2016 and 1 January 2017	181,712
Additions	75
Net decrease in fair value recognised in profit or loss	(18,908)
At 31 December 2017	**162,879**

The Group's investment property is commercial purpose unit located in Weifang, Shandong, the PRC, which were remeasured using significant unobservable inputs to fair value by reference to a valuation performed by Asia-Pacific Consulting and Appraisal Limited, independent qualified professional valuers as at 31 December 2017. Asia-Pacific Consulting and Appraisal Limited is a member of the Institute of Valuers. The Group's financial controller has discussions with the valuers on the valuation assumptions and valuation results for financial reporting purposes. 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 decrease in fair value of investment property of RMB18,908,000 has been recognised directly in profit or loss for the year ended 31 December 2017 (2016: decrease of RMB4,516,000).

16. INVESTMENT PROPERTY (continued)

The investment property with a fair value of RMB162,879,000 as at 31 December 2017 (2016: RMB181,712,000) is pledged for counter guarantee under the guarantee agreement of the corporate bond (note 37) 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 Co.. Ltd.) (the "SME Guarantee").

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

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

Investment property held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation techniques(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	Market unit sales rate, using market direct comparable at RMB4,500-5,800/sq.m. (2016: RMB5,000-5,800/sq.m.)	The increase in the market unit sales rate would result in an increase in fair value.
		The key inputs are: (1) Market unit sales rate; (2) Location markdown	Location markdown, based on location and other individual adjustment factors at 5%-10% (2016: 3%-11%)	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)	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, in 2017 (2016: 4.5%)	The increase in the term yield would result in a decrease in fair value.
		The key inputs are: (1) Term yield; (2) Capitalisation rate or reversionary yield; and (3) Market unit rent of individual unit	Capitalisation rate, taking into account annual unit market rental income and unit market value of the comparable properties, of 5% (2016: Reversionary yield of 5.0%)	The increase in the capitalisation rate would result in a decrease in fair value.
			Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB0.69 sq.m./day to RMB0.94 sq.m./day (2016: range from RMB1.5 sq.m./day to RMB1.67 sq.m./day)	The increase in the market unit rent would result in an increase in fair value.

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

The Group's property interest held under operating lease to earn rental is measured using the fair value model and is classified and accounted for as investment property.

17. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**327,046**	313,806
Current assets	**7,317**	5,889
	334,363	319,695

The Group's interests in land use rights represent prepaid operating lease payments and the movements in their net carrying amounts are analysed as follows:

	2017 RMB'000	2016 RMB'000
Opening net carrying amount	**319,695**	287,836
Additions	**—**	29,578
Acquisition of subsidiaries (note 47)	**22,218**	—
Transfer from property, plant and equipment (note 15)	**—**	8,085
Amortisation (note 12)	**(7,550)**	(5,804)
Closing net carrying amount	**334,363**	319,695

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 RMB50,080,000 (2016: RMB49,288,000). In the opinion of the Directors, the Group will not incur significant 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 42.

18. GOODWILL

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January	**18,692**	18,692
Arising from acquisition of a subsidiary (note 47)	**11,634**	—
At 31 December	**30,326**	18,692

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including one subsidiary in electricity and steam segment ("CGU A") and two subsidiaries in Paper Products segment ("CGU B" and "CGU C"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2017 allocated to these units are as follows:

	2017 RMB'000	2016 RMB'000
CGU A	**18,692**	18,692
CGU B	**4,720**	—
CGU C	**6,914**	—
At 31 December	**30,326**	18,692

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

CGU A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 13.38% (2016: 12.39%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 3% (2016: 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 A to exceed the aggregate recoverable amount of the CGU A.

18. GOODWILL (continued)

CGU B & C

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 13.38% (2016: nil). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 5% (2016: nil). 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 B & C to exceed the aggregate recoverable amount of the CGU B & C.

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	Allowance for doubtful debts and inventories	Change in fair value of leasehold/ investment properties	Deferred income	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	1,145	971	–	3,690	302	6,108
Credited/(Charged) to profit or loss (note 11)	(636)	2,712	–	–	–	2,076
At 31 December 2016	509	3,683	–	3,690	302	8,184
Credited to profit or loss (note 11)	1,825	–	1,489	–	–	3,314
At 31 December 2017	**2,334**	**3,683**	**1,489**	**3,690**	**302**	**11,498**

19. DEFERRED TAXATION (continued)

Deferred tax liabilities

	Fair value adjustment on property, plant and equipment RMB'000	Fair value adjustment on prepaid land lease 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 2016	(4,820)	–	(4,367)	(5,151)	(14,338)
Credited/(Charged) to profit or loss (note 11)	220	–	1,129	–	1,349
At 31 December 2016	(4,600)	–	(3,238)	(5,151)	(12,989)
Credited/(Charged) to profit or loss (note 11)	(765)	(278)	3,238	–	2,195
At 31 December 2017	**(5,365)**	**(278)**	**–**	**(5,151)**	**(10,794)**

Unrecognised deductible unused tax losses:

	2017 RMB'000	2016 RMB'000
Deductible tax losses	**68,524**	39,814
Less: available for offset future profit	**(2,012)**	(2,012)
Unused tax losses for which no deferred tax assets have been recognised	**66,512**	37,802

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)

Tax losses unrecognised will expire in:

	2017 RMB'000	2016 RMB'000
2019	**9,387**	9,387
2020	**2,980**	4,831
2021	**17,009**	23,584
2022	**37,136**	—
	66,512	37,802

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000	2016 RMB'000
Unlisted securities		
— Equity securities in the PRC, at cost	**—**	8,000

21. DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Other receivables from a joint venture (note 45(b))	**142,847**	297,570
Guarantee deposits for obligations under finance leases	**42,140**	27,684
Loan to a third party/a related company (note 45(b)) (*)	**53,916**	36,916
Deposits for acquisition of property, plant and equipment	**26,172**	4,237
	265,075	366,407

* The amount represents loan to a related company which a director of the Company, has a direct interest in and significant influence over the entity in 2016. In the Directors' opinion, the loan was made to this related company on normal commercial terms. The amount is unsecured, will be collected after 12 months from the end of the reporting period and carries a fixed interest at 5.22% per annum.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	334,300	213,478
Finished goods	433,755	131,768
	768,055	345,246

Details of inventories pledged are set out in note 42.

23. TRADE RECEIVABLES

An analysis of trade receivables, net of allowance for impairment of trade receivables, is as follows:

	2017 RMB'000	2016 RMB'000
Trade receivables due from:		
— Third parties	412,360	295,339
— A related party (note 45(b))	13,216	15,133
	425,576	310,472

Included in the balance of trade receivables above, there was no pledge of trade receivables for both years.

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 ageing analysis of trade receivables net of allowance for impairment of trade receivables presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	2017 RMB'000	2016 RMB'000
0–30 days	379,432	261,426
31–90 days	40,711	37,303
91–365 days	5,360	11,743
Over 1 year	73	—
	425,576	310,472

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

23. TRADE RECEIVABLES (continued)

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB16,016,000 (2016: RMB4,318,000) 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.

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

	2017 **RMB'000**	2016 RMB'000
31–90 days	**11,814**	2,922
91–365 days	**4,129**	1,396
Over 1 year	**73**	—
	16,016	4,318

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 impairment of trade receivables during the year:

	2017 **RMB'000**	2016 RMB'000
At the beginning of the year	**10,311**	8,764
(Reversal)/Provision during the year (note 8)	**(781)**	1,547
At the end of the year	**9,530**	10,311

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.

At each reporting date the Group reviews receivables for evidence of impairment on individual basis. As at 31 December 2017, the Group has determined trade receivables of RMB9,530,000 as individually impaired (2016: RMB10,311,000). Based on this assessment, provision for impairment loss has been recognised accordingly. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

24. BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Bills receivables	**765,598**	532,016

The bills represent promissory notes issued by banks received by the Group from customers who discharge their liabilities to pay the Group for the goods or services invoiced. These bills are endorsable, unsecured and non-interest bearing.

Included in the above balances, bills receivables of RMB235,702,000 (2016: RMB193,026,000) were discounted to banks with recourse. These bills receivables were not derecognised as the title of these bills receivables were not transferred to the banks. In the other hand, discounted bills financing of RMB235,702,000 (2016: RMB193,026,000) was recognised for the cash received from banks (note 34).

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

	2017 RMB'000	2016 RMB'000
0–90 days	**278,370**	186,696
91–180 days	**313,560**	309,280
181-365 days	**173,668**	36,040
	765,598	532,016

Bills receivables endorsed

Not included in the period end balance, during the year, the Group has transferred bills receivables amounted to RMB608,779,000 (2016: RMB659,389,000) 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 receivables 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 RMB608,779,000 (2016: RMB659,389,000). 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 prepayments and other receivables is as follows:

	2017 RMB'000	2016 RMB'000
Prepayments to suppliers	116,066	113,131
Other receivables	49,712	65,570
	165,778	178,701

An analysis of other receivables is as follows:

	2017 RMB'000	2016 RMB'000
VAT recoverable	16,713	41,675
Deposits	16,863	10,059
Advance to employees	4,487	452
Interest receivable	3,974	986
Others	7,675	12,398
	49,712	65,570

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 1.5% (2016: from 0.35% to 1.50%) 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 2017 (2016: 0.35% per annum).

Bank balances and cash at 31 December 2017 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. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank borrowings RMB'000	Other borrowing RMB'000	Corporate bond RMB'000	Obligations under finance leases RMB'000	Discounted bills financing RMB'000	Total RMB'000
At 1 January 2017	1,834,150	11,000	496,250	183,284	1,989,892	4,514,576
Cash-flows:						
— Proceeds	3,484,159	–	–	347,600	–	3,831,759
— Repayment	(2,590,179)	(1,000)	(100,000)	(154,654)	(534,141)	(3,379,974)
Non-cash:						
— Acquisition of a subsidiary (note 47)	37,050	–	–	–	–	37,050
— Amortisation	–	–	1,071	–	–	1,071
At 31 December 2017	2,765,180	10,000	397,321	376,230	1,455,751	5,004,482

28. INTEREST IN A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Cost of investment in a joint venture		
Unlisted	241,800	121,800
Share of post-acquisition loss and other comprehensive losses	(29,426)	(41,569)
Recognition of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	552	552
	212,926	80,783
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	(9,384)	(9,936)
	203,542	70,847

28. INTEREST IN A JOINT VENTURE (continued)

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
			2017 %	2016 %	2017 %	2016 %	
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. During the year, Century Sunshine and Oji F-Tex Co have additionally invested RMB120,000,000 and RMB80,000,000 to Sunshine Oji by way of capital injection respectively.

Summarised financial information of Sunshine Oji

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

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

	2017 RMB'000	2016 RMB'000
Current asset	**322,274**	270,376
Non-current asset	**371,130**	353,120
Current liabilities	**(339,447)**	(489,777)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**90,256**	69,633
Current financial liabilities (excluding trade and other payables and provisions)	**(13,921)**	(22,296)

28. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of Sunshine Oji (continued)

	2017 RMB'000	2016 RMB'000
Revenue	**463,644**	346,889
Profit/(Loss) and total comprehensive income/(losses) for the year	**20,238**	(21,808)
The above loss for the year include the following:		
Depreciation and amortisation	**14,331**	13,569
Interest income	**—**	(130)
Interest expense	**20,935**	28,351

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

	2017 RMB'000	2016 RMB'000
Net assets of Sunshine Oji	**353,957**	133,719
Proportion of the Group's ownership interest in Sunshine Oji	**212,374**	80,231
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(8,832)**	(9,384)
Carrying amount of the Group's interest in Sunshine Oji	**203,542**	70,847

29. TRADE PAYABLES

An analysis of trade payables is as follows:

	2017 RMB'000	2016 RMB'000
Trade payables to third parties	**853,282**	936,017

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

29. TRADE PAYABLES (continued)

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

	2017 RMB'000	2016 RMB'000
0–90 days	739,145	770,717
91–365 days	102,694	154,251
Over 1 year	11,443	11,049
	853,282	936,017

30. BILLS PAYABLES

The balance represents the amounts payables to banks for bills issued by the banks to suppliers of the Group.

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

	2017 RMB'000	2016 RMB'000
0–90 days	20,000	20,000
91–180 days	135,000	175,000
Over 180 days	90,000	30,000
	245,000	225,000

All the bills payables are of trading nature and will be expired within twelve months (2016: twelve months) from the issue date.

31. OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Other payables due to third parties	**135,779**	214,240

An analysis of other payables is as follows:

	2017 RMB'000	2016 RMB'000
Other payables	**41,226**	22,581
Advance from customers	**51,152**	137,470
VAT and other tax payable	**22,661**	30,548
Interest payable of corporate bond	**16,380**	18,399
Other interest payable	**1,286**	2,369
Accrued payroll and welfare	**3,074**	2,873
	135,779	214,240

32. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain machinery for a term of 2 to 5 years under the sales and lease back arrangements resulting in finance leases.

The Group has options to purchase these equipment for a nominal amount at the end of the lease terms. Such transactions were considered as sales and lease back arrangements resulting in a finance lease.

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**165,571**	88,510
Non-current liabilities	**210,659**	94,774
	376,230	183,284

32. OBLIGATIONS UNDER FINANCE LEASES (continued)

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 4.38% to 8.73% (2016: 6.30% to 7.73%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Amounts payable under finance leases				
— Within one year	**182,803**	97,217	**165,571**	88,510
— In more than one year but not more than two years	**153,518**	70,078	**144,909**	66,388
— In more than two years but not more than five years	**67,309**	29,213	**65,750**	28,386
	403,630	196,508	**376,230**	183,284
Less: future finance charges	**(27,400)**	(13,224)	**—**	—
Present value of lease obligations (note 41(d))	**376,230**	183,284	**376,230**	183,284
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(165,571)**	(88,510)
Amount due for settlement after 12 months			**210,659**	94,774

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

During the year ended 31 December 2017, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB347,600,000 for a period of 2-3 years. Upon maturity, the Group will be entitled to purchase the Secured Assets.

33. 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 grants obtained in relation to the acquisition of land use rights and certain equipment.

	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 2016	1,361	15,549	2,363	6,210	25,483
Addition	–	–	–	1,000	1,000
Released to income	(520)	(1,512)	(36)	(612)	(2,680)
At 31 December 2016 and 1 January 2017	841	14,037	2,327	6,598	23,803
Released to income	(496)	(1,513)	(61)	(663)	(2,733)
At 31 December 2017	**345**	**12,524**	**2,266**	**5,935**	**21,070**

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

	2017 RMB'000	2016 RMB'000
Current portion	**2,405**	2,758
Non-current portion	**18,665**	21,045
	21,070	23,803

34. DISCOUNTED BILLS FINANCING

The balance represents borrowings from banks by discounting, with recourse, bills receivables to the Group. At the reporting date, the balance comprised the follows:

	2017 RMB'000	2016 RMB'000
Discounted bills receivables from third parties (note a)	**235,702**	193,026
Discounted bills receivables from a joint venture	**32**	—
Discounted bills receivables from subsidiaries of the Company (note b)	**1,220,017**	1,796,866
Total	**1,455,751**	1,989,892

a. These borrowings arose from discounting, with recourse, of bills receivables from third parties. The Group continues to recognise the carrying amount of the underlying bills receivables, as presented in note 24, since the title of receivables was not transferred to the lending banks.

b. These borrowings arose from discounting, with recourse, of intra-group bills receivables, from one component to another of the Group. The Group continues to recognise the carrying amount of the underlying bills receivables since the title of receivables was not transferred to the lending banks. However, the corresponding intra-group bills receivables were eliminated in consolidation against the original bills payables from the bill issuing component of the Group. The elimination is based on the Directors' judgment that the risk and reward associated with these intra-group bills receivables and bills payables remain within the Group.

   In obtaining the original intra-group bills, bank deposits of RMB1,211,300,000 (2016: RMB1,192,750,000) were pledged to the issuing banks.

35. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Secured bank borrowings	**1,375,132**	1,220,920
Unsecured bank borrowings	**1,390,048**	613,230
	2,765,180	1,834,150
The borrowings are repayable as follows:		
— Within one year	**2,551,969**	1,769,150
— In the second year	**190,965**	27,000
— In the third to fifth years inclusive	**22,246**	38,000
	2,765,180	1,834,150
Less: Amount due for settlement within one year and shown under current liabilities	**(2,551,969)**	(1,769,150)
Amount due after one year	**213,211**	65,000
Total borrowings		
— At fixed rates	**2,185,680**	1,068,168
— At floating rates	**579,500**	765,982
	2,765,180	1,834,150
Analysis of borrowings by currency:		
— Denominated in RMB	**2,746,884**	1,834,150
— Denominated in US$	**18,296**	—

Fixed-rate borrowings are charged at the rates ranging from 3.00% to 7.40% per annum as at 31 December 2017 (2016: 3.08% to 7.40% 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.

For all bank borrowings as above, the weighted average effective interest rate for the year ended 31 December 2017 was 4.91% per annum (2016: 5.11% per annum).

Details of pledge of assets for the Group's secured bank borrowings are set out in note 42.

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36. OTHER BORROWING

	2017 RMB'000	2016 RMB'000
Borrowing from Weifang City Investment Co., Ltd.* (濰坊市投資集團有限公司) ("Weifang City Investment")	**10,000**	11,000

The borrowing from Weifang City Investment, an unconnected third party, is unsecured and repayable on demand. The weighted average effective interest annual rate for the year ended 31 December 2017 was 6.65% per annum (2016: 6.65% per annum).

* The translation of name in English is for identification purpose only.

37. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was RMB500,000,000 with annual coupon rate of 8.19%. The corporate bond is guaranteed by SME Guarantee, and is with counter-guarantee arrangement with the Group's investment property of RMB162,879,000 (2016: RMB181,712,000) (see note 16). RMB100,000,000 had been repaid during the year and the remaining balance will be repaid with 20% of offering size annually from the year 2018 to the year 2021.

38. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Authorised: Ordinary shares of HK$0.10 each At 1 January 2016, 31 December 2016 and 31 December 2017	2,000,000,000	200,000

38. SHARE CAPITAL (continued)

	Number of shares	Share capital HK$'000	Shown in the consolidated financial statements RMB'000
Issued and fully paid:			
At 1 January 2016, 31 December 2016 and 1 January 2017	802,588,000	80,258	72,351
Issue and allotment for the Share Award Scheme (note)	16,774,000	1,678	1,428
At 31 December 2017	**819,362,000**	**81,936**	**73,779**

Note:

During the year ended 31 December 2017, 16,774,000 ordinary shares of HK$0.1 each were issued under the special mandate granted by the shareholders of the Company at the extraordinary general meeting on 29 September 2017 (the "Special Mandate") for the Company's share award scheme (the "Share Award Scheme"). The market value of the ordinary share on 21 July 2017, being the grant date, is HK$1.9 per ordinary share as disclosed in the Company's announcement dated 21 July 2017. Details were set out in note 46 to the financial statements.

39. 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 from non-controlling shareholders of subsidiaries that were established and operated in PRC (the "PRC Companies"), may be applied for conversion into capital.

39. RESERVES (continued)

Assets revaluation reserve

Included in the balance of assets revaluation reserve at 31 December 2017, 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 RMB2,819,000 is the fair value adjustment resulted from the revaluation of leasehold properties at the time transferred to investment properties in the year 2012.

* The translation of name in English is for identification purpose only.

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.

40. 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 bills financing, bank borrowings, other borrowings and corporate bond disclosed in notes 32, 34, 35, 36 and 37 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.

41. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables	3,419,079	3,266,320
Available-for-sale financial assets	–	8,000
	3,419,079	3,274,320
Financial liabilities		
Liabilities at amortised cost	5,823,218	5,550,705
Obligations under finance leases	376,230	183,284
	6,199,448	5,733,989

(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 management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

41. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

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

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

	2017 RMB'000	2016 RMB'000
Assets		
US$		
Bank balances and cash	16,209	22,300
Trade receivables	21,954	11,413
Prepayment and other receivables	2,183	12,016
HK$		
Bank balances and cash	741	428
Prepayments and other receivables	—	—
EURO		
Bank balances and cash	80	435
Prepayments and other receivables	—	1,580
Liabilities		
US$		
Trade payables	50,831	176,900
Bank borrowings	18,296	—
Other payables	1,371	8,897
HK$		
Trade payables	1,218	—
Other payables	—	154

41. 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 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	
	2017 RMB'000 (a)	2016 RMB'000 (a)	**2017 RMB'000 (b)**	2016 RMB'000 (b)	**2017 RMB'000 (c)**	2016 RMB'000 (c)
(Decrease)/increase in post-tax profit for the year	**1,131**	5,253	**18**	(10)	**(3)**	(76)

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

c. This is mainly attributable to the exposure outstanding on bank balances and cash and prepayments and other receivables 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 bills financing, fixed-rate bank and other borrowings and corporate bond subject to negotiation on annual basis (see notes 34, 35, 36 and 37 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 bank borrowings (see notes 35 for details), obligations under finance leases (see note 32), restricted bank deposits and bank balances (see note 26).

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

41. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) *Interest rate risk management* (continued)

Sensitivity analysis

The sensitivity analysis 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 borrowings, obligations under finance leases, restricted bank deposits and bank balances, 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 (2016: 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 (2016: 25 basis points) and all other variables were held constant, the Group's post-tax profit would increase (decrease) by approximately RMB1,876,000 for the year ended 31 December 2017 (2016: post-tax profit would increase (decrease) by approximately RMB2,041,000).

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivables, other receivables, 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.

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

As at 31 December 2017, the Group had net current liabilities of approximately RMB1,503,564,000 (2016: RMB1,963,570,000). 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 2017. 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 2018. The management believes that they can successfully renew these facility 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 RMB546,720,000 originally with the expiration dates in the year 2018 (See note 50).

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.

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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.

	Weighted average interest rate	Within 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017						
Non-derivative financial liabilities						
Fixed-rate bank borrowings (*)	5.03	2,065,250	165,605	16,242	2,247,097	2,185,680
Variable-rate bank borrowings (*)	4.43	557,903	45,413	9,639	612,955	579,500
Other borrowings	6.55	10,655	–	–	10,655	10,000
Bills payables		245,000	–	–	245,000	245,000
Trade payables		853,282	–	–	853,282	853,282
Other payables		58,892	–	–	58,892	58,892
Payables for construction work		37,792	–	–	37,792	37,792
Discounted bills financing		1,455,751	–	–	1,455,751	1,455,751
Obligations under finance leases	5.95	182,803	153,518	67,309	403,630	376,230
Corporate bond	8.19	129,103	120,893	217,275	467,271	397,321
		5,596,431	485,429	310,465	6,392,325	6,199,448
At 31 December 2016						
Non-derivative financial liabilities						
Fixed-rate bank borrowings (*)	5.34	1,087,820	–	–	1,087,820	1,068,168
Variable-rate bank borrowings (*)	4.80	747,911	28,296	41,648	817,855	765,982
Other borrowings	6.55	11,721	–	–	11,721	11,000
Bills payables		225,000	–	–	225,000	225,000
Trade payables		936,017	–	–	936,017	936,017
Other payables		43,349	–	–	43,349	43,349
Payables for construction work		15,047	–	–	15,047	15,047
Discounted bills financing		1,989,892	–	–	1,989,892	1,989,892
Obligations under finance leases	6.73	97,217	70,078	29,213	196,508	183,284
Corporate bond	8.19	137,293	129,103	338,168	604,564	496,250
		5,291,267	227,477	409,029	5,927,773	5,733,989

* Subsequent to the year ended 31 December 2017, certain PRC banks agreed to extend the Group's RMB546,720,000 bank borrowings' expiration dates (originally to be repaid in year 2018) for one year (See note 50).

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

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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

Included in above, discounted bills financing with carrying amount of approximately RMB235,702,000 (2016: RMB193,026,000) will be offset with corresponding bills receivables upon maturity.

(e) Fair value measurements

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost at 31 December 2017 and 2016 in the consolidated financial statements approximate their fair values.

42. 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 bills financing and bills payables) 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:

	2017 RMB'000	2016 RMB'000
Buildings	**563,737**	592,719
Plant, machinery and equipment	**977,194**	518,675
Prepaid lease payments	**319,660**	219,158
Inventories	**33,840**	15,010
Bills receivables	**348,000**	3,481
Restricted bank deposits	**1,481,484**	1,445,592
	3,723,915	2,794,635

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).

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43. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of property, plant and equipment	207,765	33,004

44. OPERATING LEASES

The Group as lessee

	2017 RMB'000	2016 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	2,876	3,609

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:

	2017 RMB'000	2016 RMB'000
Within one year	2,822	3,707
In the second to fifth year inclusive	5,055	6,898
	7,877	10,605

The Group as lessor

Property rental income earned during the year was RMB1,502,000 (2016: RMB1,695,000). 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:

	2017 RMB'000	2016 RMB'000
Within one year	913	1,269
In the second to fifth year inclusive	4,499	4,300
After five years	448	1,621
	5,860	7,190

45. RELATED PARTY TRANSACTIONS

(a) Other than those disclosed elsewhere in the consolidated financial statements, the Group has entered into the following significant transactions with its related parties during the year:

	2017 RMB'000	2016 RMB'000
Sales of electricity and steam to a non-controlling shareholder of a subsidiary (note i)	121,960	95,660
Interest income earned from a joint venture (note 8(i))	16,654	22,969

Notes:

(i) The transaction fell under the definition of continuing connected transactions (as defined in the Listing Rules), details of which are disclosed in the Report of the Directors.

(ii) Besides the transactions disclosed above, the Group purchased certain wood pulp on behalf of Sunshine Oji as an agent and then during the year ended 31 December 2016, sold it for RMB5,750,000 to Sunshine Oji for its business activities. No such transaction during the year ended 31 December 2017.

(b) Balances with related parties

	2017 RMB'000	2016 RMB'000
Loan to a related company (note 21) (note i)	–	36,916
Trade receivable from a non-controlling shareholder of a subsidiary (note 23) (note ii)	13,216	15,133
Balance due from a joint venture (note 21) (note iii)	142,847	297,570

Notes:

(i) During the year ended 31 December 2016, the Group has a loan to a related company which a director of the Company has direct interest in and significant influence over the entity. On 21 June 2017, the director disposed all of his shares in this related company to an independent third party. The balance will be collected after 12 months from the end of the reporting period, see note 21 for more details.

(ii) The balance will be collected within 12 months from the end of the reporting period.

(iii) The balance will be collected after 12 months from the end of the reporting period, see note 8(i) for more details.

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

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

	2017 **RMB'000**	2016 RMB'000
Short term employee benefit	**9,948**	6,249
Retirement benefit scheme contributions	**40**	46
Share-based compensation	**28,703**	—
	38,691	6,295

46. SHARE AWARD SCHEME

On 27 June 2017, the board of directors ("Board") of the Company adopted the Share Award Scheme as a means to recognise the contribution of certain directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group.

The Share Award Scheme is valid and effective for a period of 10 years from 27 June 2017 (the "Adoption Date"). The shares to be awarded under the Share Award Scheme (the "Award Shares") will be allotted and issued by the Company at the end of each vesting period at par value or any other higher amount as determined by the Board, by using the general mandate granted to the Board by the shareholders in general meetings of the Company from time to time; or where required by applicable law, the Listing Rules, the articles of association or any rule of the Company, specific mandate to be granted to the Board by the shareholders in general meetings of the Company from time to time.

The Board shall not make any further award of shares which will result in the total number of shares awarded by the Board under the Share Award Scheme representing in excess of 10% of the issued share capital of the Company as at the Adoption Date.

The vesting of shares awarded to the awardees is subject to conditions and vesting schedules as determined by the Board in its sole discretion.

In 2017, the Board resolved to grant share awards in respect of 16,774,000 shares to certain selected participants under the Share Award Scheme by way of allotment and issue of 16,774,000 new shares on 4 October 2017 pursuant to the Specific Mandate. Among the 16,774,000 Awarded Shares, 15,972,000 Awarded Shares are awarded to two executive Directors, being Wang Dongxing and Wang Changhai; and 802,000 Awarded Shares are awarded to a selected participant who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them. All Awarded Shares are vested immediately on the dates as set out in the relevant letters of grant issued by the Company.

No shares were awarded during the year ended 31 December 2016.

In total, RMB28,703,000 of employee compensation expense has been recognised in profit or loss for 2017 (2016: nil) and the corresponding amount of which has been credited share capital and share premium. No liabilities were recognised due to share-based payment transactions.

47. BUSINESS COMBINATION

The following table summarises the considerations paid for business acquisitions completed during the year ended 31 December 2017, and the fair value of identifiable assets and liabilities of the acquires at the respective acquisition date:

	Tonghua Xinlong RMB'000 (Note 47a)	**Tianjin Xin Yuan** RMB'000 (Note 47b)	**Total** RMB'000
Property, plant and equipment	54,848	—	54,848
Prepaid land lease	12,540	9,678	22,218
Inventories	7,643	—	7,643
Trade and other receivables	17,900	—	17,900
Cash and cash equivalents	694	27	721
Trade and other payables	(597)	(261)	(858)
Bank borrowings	(37,050)	—	(37,050)
Deferred tax liabilities	(1,261)	—	(1,261)
	54,717	9,444	64,161
Capital to be injected by the Company as purchase consideration	—	23,940	23,940
	54,717	33,384	88,101
Non-controlling interests	(21,887)	(16,358)	(38,245)
	32,830	17,026	49,856
Cash consideration	37,550	23,940	61,490
Goodwill arising on acquisition	4,720	6,914	11,634
Satisfied by:			
— Cash consideration	37,550	—	37,550
— Capital injection	—	23,940	23,940
	37,550	23,940	61,490
Net cash outflow on acquisition of a subsidiary:			
Consideration paid in cash	37,550	—	37,550
Cash and cash equivalent acquired	(694)	(27)	(721)
	36,856	(27)	36,829

47. BUSINESS COMBINATION (continued)

(a) Acquisition of 60% equity interest in Tonghua Xinlong Pharmaceutical Packaging Printing Co. Ltd. during the year ended 31 December 2017

On 3 May 2017, Shanghai Wangreat Industrial Co., Ltd.* (上海王的實業有限公司) ("Wangreat"), an indirect wholly-owned subsidiary of the Company and Du Guoqiang (the "Vendor"), being independent third parties, entered into equity acquisition agreement, pursuant to which the Vendor agreed to transfer 60% equity interest in Tonghua Xinlong Pharmaceutical Packaging Printing Co., Ltd.* (通化鑫隆醫藥包裝彩印有限公司) ("Tonghua Xinlong") to Wangreat for an aggregate consideration of RMB37,550,000. On 21 August 2017, the acquisition of 60% equity interest in Tonghua Xinlong was completed. Upon completion of the acquisition, the equity interest in Tonghua Xinlong is owned as to 60% by Wangreat.

Tonghua Xinlong is engaged in the business of medicine packaging design. The directors of the Company considered that the acquisition of equity interest in Tonghua Xinlong is beneficial to the Group to expand its business in relation to paper products operations.

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of RMB17,900,000 had gross contractual amounts of RMB17,900,000.

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB1,196,000 loss for the year attributable to the additional business generated by Tonghua Xinlong. Revenue for the year includes RMB29,784,000 in respect of Tonghua Xinlong.

If the acquisition had occurred on 1 January 2017, the Group's revenue would have been increased by RMB51,381,000 and profit for the year from continuing operations would have been increased by RMB3,081,000 for the year ended 31 December 2017. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

* The translation of name in English is for identification purposes only

(b) Acquisition of 51% equity interest in Tianjin Xin Yuan Packaging Co., Ltd. during the year ended 31 December 2017

According to the cooperation framework agreement and capital injection agreement entered into between Wangreat and the shareholders of Tianjin Xin Yuan Packaging Co., Ltd.* (天津市鑫源包裝有限公司) ("Tianjin Xin Yuan"), the consideration of the acquisition of 51% equity interest of Tianjin Xin Yuan will be settled by way of cash injection of RMB23,940,000 to Tianjin Xin Yuan as registered capital. On 3 August 2017, the acquisition of 51% equity interest in Tianjin Xin Yuan was completed. Upon completion of the acquisition, the equity interest in Tianjin Xin Yuan is owned as to 51% by Wangreat.

Tianjin Xin Yuan is engaged in manufacture of paper products in PRC. The directors of the Company considered that the acquisition of equity interest in Tonghua Xinlong is beneficial to the Group to expand its business in relation to paper products operations.

* The translation of name in English is for identification purposes only

47. BUSINESS COMBINATION (continued)

(c) Acquisition of 60% equity interest in Liaoning Sunshine Tianze Packaging Co., Ltd. during the year ended 31 December 2016

	Principal activity	Date of acquisition	Proportion of shares acquired	Consideration transferred
				RMB'000
2016				
Liaoning Sunshine Tianze Packaging Co., Ltd. (遼寧陽光天澤包裝有限公司) ("Sunshine Tiange")	Manufacture of paper products	14 November 2016	60%	2,200

Sunshine Tianze was acquired so as to continue the expansion of the Group's paper products operations.

Consideration transferred

	RMB'000
Cash	22,000

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Cash and cash equivalents	14
Property, plant and equipment	110,493
Prepaid lease payments	29,578
Inventories	10,856
Trade and other receivables	9,305
Trade and other payables	(41,427)
Bank borrowing	(82,000)
	36,819

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of RMB9,305,000 had gross contractual amounts of RMB9,305,000.

47. BUSINESS COMBINATION (continued)

(c) Acquisition of 60% equity interest in Liaoning Sunshine Tiange Packaging Co., Ltd. during the year ended 31 December 2016 (continued)

Non-controlling interests

The non-controlling interests (40%) in Sunshine Tiange recognised at the acquisition date was measured by reference to the proportionate share of the fair value of identifiable net assets of the entity and amounted to RMB14,728,000.

Gain on bargain purchase arising on acquisition

	RMB'000
Consideration transferred	22,000
Non-controlling interest (40% in Sunshine Tiange)	14,728
Fair value of identifiable net assets acquired	(36,819)
Gain on bargain purchase arising on acquisition	91

Gain on bargain purchase represents the excess of fair value of consideration transferred at acquisition over the fair value of the identifiable assets acquired and liabilities assumed for this acquisition.

Net cash outflow on acquisition of a subsidiary

	RMB'000
Consideration paid in cash	22,000
Cash and cash equivalent acquired	(14)
	21,986

Impact of acquisition on the results of the Group

Included in the profit for the year is loss of RMB2,654,000 attributable to the additional business generated by Sunshine Tiange. Revenue for the year includes RMB21,770,000 in respect of Sunshine Tiange.

If the acquisition had occurred on 1 January 2016, the Group's revenue would have been increased by RMB27,200,000 and profit for the year from continuing operations would have been reduced by RMB13,730,000 for the year ended 31 December 2016. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

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. PARTICULARS OF SUBSIDIARIES

49.1 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 operations	Registered/ paid-up capital	Attributable equity interest and voting right held by the Company		Principal activities
				2017	2016	
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 vi)	Private limited company	United States of America	US$50,000	–	100.00%	Trading
Sunshine Concept Packaging Inc. 美國陽光概念包裝服務有限公司	Private limited company	United States of America	US$200,000	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

49. PARTICULARS OF SUBSIDIARIES (continued)

49.1 General information of subsidiaries (continued)

Name of company	Form of business structure	Place of incorporation/ establishment and operations	Registered/ paid-up capital	Attributable equity interest and voting right held by the Company 2017	2016	Principal activities
Indirectly held (continued)						
山東陽光概念包裝有限公司 (Shandong Sunshine Concept Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB430,000,000	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 ii)	Private limited company	PRC	RMB46,500,000	–	100.00%	Trading of packaging products
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	RMB239,250,000	80.00%	80.00%	Generation and supply of electricity and steam
濰坊大環再生資源有限公司 (Weifang Dahuan Waste Recovery Co., Ltd.) (note i)	Private limited company	PRC	RMB70,000,000	100.00%	100.00%	Waste materials trading
上海王的實業有限公司 (Shanghai Wangreat Industrial Co., Ltd.) (note i & iv)	Private limited company	PRC	RMB578,000,000/ RMB573,000,000	97.38%	97.69%	Package design
上海王的網路科技有限公司 (Shanghai Wangreat Network Technology Co., Ltd.) (note i)	Private limited company	PRC	RMB50,000,000/ RMB1,000,000	100.00%	100.00%	Trading of paper products
遼寧陽光天澤包裝有限公司 (Liaoning Sunshine Tianze Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB75,000,000	82.05%	60.00%	Manufacture of paper products
通化鑫隆醫藥包裝彩印有限公司 (Tonghua Xinlong Pharmaceutica Packaging Printing Co., Ltd.) (note i & v)	Private limited company	PRC	RMB55,000,000	60.00%	–	Medicine packaging design

49. PARTICULARS OF SUBSIDIARIES (continued)

49.1 General information of subsidiaries (continued)

Name of company	Form of business structure	Place of incorporation/ establishment and operations	Registered/ paid-up capital	Attributable equity interest and voting right held by the Company 2017	2016	Principal activities
Indirectly held (continued)						
Tianjin Xin Yuan Packaging Co., Ltd.* (天津市鑫源包裝有限公司) (note i & v)	Private limited company	PRC	RMB73,470,000	51.00%	–	Manufacture of paper products
濰坊申易進出口貿易有限公司 (Weifang Shenyi Import & Export Trading Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB10,000,000/ RMB nil	100.00%	–	Trading broker
山東華邁紙業有限公司 (Shandong Wamat Paper Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB500,000,000/ RMB100,000,000	100.00%	–	Manufacture of paper products
深圳王的商業保理有限公司 (Shenzhen Wangreat Commercial Factoring Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB50,000,000/ RMB nil	100.00%	–	Carton packing service, wholesale
上海王的貿易有限公司 (Shanghai Wangreat Trading Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB1,000,000/ RMB nil	100.00%	–	Import and export of goods and technology
上海王的供應鏈管理有限公司 (Shanghai Wangreat Supply Chain Management Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB1,000,000/ RMB nil	100.00%	–	Supply chain management, enterprise management consulting
上海王的文化傳媒有限公司 (Shanghai Wangreat Cultural Media Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB1,000,000/ RMB nil	100.00%	–	Advertising design and production
上海王的包裝有限公司 (Shanghai Wangreat Packaging Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB1,000,000/ RMB nil	100.00%	–	Packaging service, wholesale and importation of carton
昌樂博利經貿有限公司 (Changle Bolley Trade Co., Ltd.) (note i & iii)	Private limited company	PRC	RMB3,000,000/ RMB nil	100.00%	–	Sales of coal

49. PARTICULARS OF SUBSIDIARIES (continued)

49.1 General information of subsidiaries (continued)

Notes:

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

(ii) This company was deregistered during the year ended 31 December 2016.

(iii) Newly established during the year ended 31 December 2017.

(iv) Originally known as陽光概念包裝有限公司 "Sunshine Concept Packing Co., Ltd.".

(v) Newly acquired during the year 31 December 2017.

(vi) This company was deregistered during the year 31 December 2017.

None of the subsidiaries had issued any debt securities at the end of the reporting period except for Century Sunshine which has issued RMB500,000,000 of corporate bond (see note 37), in which the Group has no interest.

49.2 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	
		31.12.2017 %	31.12.2016 %	31.12.2017 RMB'000	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2016 RMB'000
Shengshi Thermoelectricity	PRC	20	20	8,354	5,541	111,436	103,082
Individually immaterial subsidiaries with non-controlling interests						76,109	48,816
						187,545	151,898

Shengshi Thermoelectricity is a private limited company established and located in PRC. The Group has 80% ownership interest in Shengshi Thermoelectricity, which gives the Group the same percentage of voting rights in Shengshi Thermoelectricity.

49. PARTICULARS OF SUBSIDIARIES (continued)

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

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

	2017 RMB'000	2016 RMB'000
Current assets	**1,399,465**	1,107,983
Non-current assets	**367,135**	381,516
Current liabilities	**(1,157,211)**	(914,865)
Non-current liabilities	**(52,210)**	(59,226)
Equity attributable to owners of the Company	**445,743**	412,326
Non-controlling interests	**111,436**	103,082

	2017 RMB'000	2016 RMB'000
Revenue	**719,004**	493,621
Expenses	**677,234**	465,916
Profit for the year	**41,770**	27,705
Profit attributable to owners of the Company	**33,416**	22,164
Profit attributable to the non-controlling interests	**8,354**	5,541
Profit for the year	**41,770**	27,705
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	**33,416**	22,164
Total comprehensive income attributable to the non-controlling interests	**8,354**	5,541
Total comprehensive income for the year	**41,770**	27,705

49. PARTICULARS OF SUBSIDIARIES (continued)

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

	2017 RMB'000	2016 RMB'000
Net cash (outflow)/inflow from operating activities	**(55,330)**	64,400
Net cash outflow from investing activities	**(54,544)**	(62,560)
Net cash inflow from financing activities	**82,057**	43,487
Net cash (outflow)/inflow	**(27,817)**	45,327

50. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the year ended 31 December 2017, certain PRC banks agreed to extend the due dates of the Group's bank borrowings of approximately RMB546,720,000 for one year when they fall due in year 2018.

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

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

	2017 RMB'000	2016 RMB'000
Non-current assets		
Investments in subsidiaries	462,824	462,824
Amounts due from subsidiaries	680,663	660,684
	1,143,487	1,123,508
Current assets		
Prepayments and other receivables	2	2
Amounts due from subsidiaries	—	9,436
Bank balances and cash	698	430
	700	9,868
Current liabilities		
Amounts due to subsidiaries	19,439	18,891
Other payables	308	154
	19,747	19,045
Net current liabilities	(19,047)	(9,177)
Total assets less current liabilities	1,124,440	1,114,331
Capital and reserves		
Share capital	73,779	72,351
Reserves (note)	1,050,661	1,041,980
Total equity	1,124,440	1,114,331

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

Note:

Movement in equity

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	72,351	695,682	283,277	48,694	1,100,004
Profit and total comprehensive income for the year	—	—	—	34,906	34,906
Dividend paid	—	—	—	(20,579)	(20,579)
At 31 December 2016 and 1 January 2017	72,351	695,682	283,277	63,021	1,114,331
Issue and allotment for the Share Award Scheme (Note 46)	1,428	27,275	—	—	28,703
Profit and total comprehensive income for the year	—	—	—	9,269	9,269
Dividend paid	—	—	—	(27,863)	(27,863)
At 31 December 2017	**73,779**	**722,957**	**283,277**	**44,427**	**1,124,440**

Financial Summary

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Results					
Revenue	5,781,857	4,223,298	3,725,808	3,447,617	3,657,671
Profit/(Loss) before income tax	564,542	185,315	70,798	(16,921)	38,945
Taxation	(162,918)	(58,756)	(14,624)	(14,348)	(11,425)
Non-controlling interests	(5,593)	(3,448)	(4,916)	(6,697)	(5,465)
Profit/(Loss) attributable to owners of the Company	396,031	123,111	51,258	(37,966)	22,055
Assets					
Non-current assets	4,461,349	4,321,581	4,164,843	4,411,929	4,280,860
Current assets	4,088,640	3,410,091	3,330,645	3,485,528	3,325,826
Total assets	8,549,989	7,731,672	7,495,488	7,897,457	7,606,686
Liabilities					
Non-current liabilities	750,650	590,058	805,985	656,971	310,937
Current liabilities	5,592,204	5,373,661	5,070,883	5,678,036	5,695,639
Total liabilities	6,342,854	5,963,719	5,876,868	6,335,007	6,006,576
Equity and reserves					
Total equity	2,207,135	1,767,953	1,618,620	1,562,450	1,600,110
Non-controlling interests	(187,545)	(151,898)	(105,097)	(100,185)	(93,488)
Equity attributable to owners of the Company	2,019,590	1,616,055	1,513,523	1,462,265	1,506,622