



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



*For identification purposes only



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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. Li Hengwen
Mr. Xu Leihua

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

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

Rooms 801 & 803, 8/F., Beverly House
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Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
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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
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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
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

STOCK CODE

2002

WEBSITE

www.sunshinepaper.com.cn

OPERATION REVIEW AND OUTLOOK

OPERATION REVIEW

For the first six months ended 30 June 2017, the main products of the Group achieved sales volume of around 619,000 tonnes, increased slightly from around 603,000 tonnes for the corresponding period last year. With the stringent environmental policies implemented by the PRC, its vigorous elimination of outdated production capacities and high entry barriers for new entry production capacity, as well as the demand recovery in the paper manufacturing industry where the demand-supply conditions had seen certain degree of improvement, sales revenue of the Group's companies had accordingly increased by 36.7% from RMB1,971.4 million for the first six months ended 30 June 2016 to RMB2,695.2 million for the first six months ended 30 June 2017. Due to the stable operation of the direct on-site internal customs control station of the Group and benefiting from the government's preferential measures on value-added tax rebates for recycled paper manufacturers, the enterprise productivity and efficiency had been further boosted. For the first six months ended 30 June 2017, the Group achieved an overall gross profit margin of 22.7%, as compared to 21.4% for the corresponding period last year.

OUTLOOK

Looking forward, while we anticipate slower economic growth ahead, in longer term, with the improvement in household living standard and greater awareness in environmental protection, market demand for packaging papers is expected to realise continuous growth. On this basis, the Group remains confident about the prospects of the packaging paper industry. The Group will steadily strengthen the research and development efforts on high-end decoration papers of the joint venture Sunshine Oji (Shouguang) Specialty Paper Co., Ltd. capitalising on its established strength in resources. The Group intends to invest in the second phase construction of the project to offer our customers with products characterised by features such as diverse assortment, small quantity and customised requirements. With the ongoing course of optimisation of product structure, expansion in market share and economies of scale improvement, the Group is striding firmly towards the high-end realm of decoration papers.

The Group will keep pursuing management sophistication, effective cost control and suitable operation policies with an aim to continuously boost our profit growth. Meanwhile, the Group will also continue to strictly uphold the concept of environmental-friendly operation and the principle of harmonious co-existence with nature to achieve mutually beneficial relationship between economic development and ecological balance, facilitating the sustainable organic growth for the corporation.



MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the first six months ended 30 June 2017 ("1H 2017"), our Group's total revenue was RMB2,695.2 million, representing an increase of 36.7% as compared to that of RMB1,971.4 million for the first six months ended 30 June 2016 ("1H 2016").

As a result of the recovery in demand of paper products and the gradual reduction of overcapacity by eliminating obsolete production facilities in paper industry, sales volume and average selling price of paper products of our Group continued to increase during 1H 2017. Sales of paper products strongly increased by 37.5% to RMB2,582.1 million for 1H 2017 with sales volume of around 619,000 tonnes, as compared to that of RMB1,877.7 million and around 603,000 tonnes for the corresponding period last year.

The table below sets forth the sales and gross profit margin by different business segments for the period indicated:

	1H 2017			1H 2016		
	RMB'000	GP margin (%)	% of total revenue	RMB'000	GP margin (%)	% of total revenue
White top linerboard	724,009	21.2	26.8	568,921	18.6	28.9
Light-coated linerboard	1,098,550	28.8	40.8	815,797	25.8	41.3
Core board	322,882	18.9	12.0	230,246	20.7	11.7
Specialised paper products	436,666	14.1	16.2	262,709	15.3	13.3
Subtotal of sales of paper products	2,582,107	23.0	95.8	1,877,673	21.5	95.2
Sales of electricity and steam	113,108	15.6	4.2	93,745	19.1	4.8
Total revenue	2,695,215	22.7	100.0	1,971,418	21.4	100.0

COST OF SALES

Cost of sales mainly comprised of raw materials cost, labour cost and manufacturing overhead cost such as depreciation and energy consumption.

Cost of sales was RMB2,083.6 million for 1H 2017, representing an increase of 34.5% as compared to that of RMB1,549.4 million for 1H 2016. The increase in cost of sales was generally in line with the increase in revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the increase in the average selling price of paper products, our Group maintained an increase in gross profit of RMB611.6 million for 1H 2017, from RMB422.0 million for 1H 2016. Gross profit margin also recorded an increase of 1.3 percentage points, from 21.4% for 1H 2016 to 22.7% for 1H 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER PROFIT AND LOSS ITEMS

Other income of RMB55.9 million for 1H 2017 (1H 2016: RMB46.8 million) mainly consisted of interest income on bank deposits of RMB10.6 million, interest income earned from a joint venture of RMB9.0 million, rental income of RMB1.3 million and government grants of RMB33.5 million.

Other losses of RMB38.4 million for 1H 2017 (1H 2016: RMB2.8 million) mainly comprised a negative change in fair value of an investment property of RMB15.1 million and loss on disposal of property, plant and equipment of RMB27.5 million.

Distribution and selling expenses primarily consisted of transportation costs and staff costs relating to sales and marketing. It was RMB136.9 million for 1H 2017, which was comparable to that of RMB136.8 million for the corresponding period last year. As a percentage of revenue, it decreased from 6.9% for 1H 2016 to 5.1% for 1H 2017.

Administrative expenses primarily consisted of (i) salaries and other benefits for general and administrative staff, (ii) travel expenses, (iii) depreciation of office buildings and equipment and (iv) office general expenses. Due to a packaging company newly acquired in 2016 second half year and further expansion of our business, administrative expenses increased by 41.8%, from RMB85.2 million for 1H 2016 to RMB120.8 million for 1H 2017. As a percentage of revenue, it slightly increased from 4.3% for 1H 2016 to 4.5% for 1H 2017.

Finance costs recorded a decrease of 7.1%, from RMB144.6 million for 1H 2016 to RMB134.3 million for 1H 2017. The decrease in finance costs reflected the renewal of lower interest bearing bank borrowings during 1H 2017.

During 1H 2017, there was a share of profit of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB6.3 million. On the contrary, there was a share of loss of the joint venture of RMB10.2 million for the corresponding period last year. The improvement in profitability of the joint venture was mainly due to the increase in the average selling prices of its decorative paper products benefited from its brand recognition.

INCOME TAX EXPENSES

Our income tax expenses increased from RMB24.5 million for 1H 2016 to RMB72.5 million for 1H 2017. The applicable enterprise income tax rate for our subsidiaries for both 1H 2017 and 1H 2016 were roughly the same. Effective tax rate for 1H 2017 and 1H 2016 was 29.8% and 27.4%, respectively.

PROFIT AND TOTAL COMPREHENSIVE INCOME

As a result of the factors discussed above, the profit and total comprehensive income attributable to the owners of our Group strongly increased by nearly 2.7 times, from RMB61.9 million for 1H 2016 to RMB168.5 million for 1H 2017.



LIQUIDITY AND FINANCIAL RESOURCES

Working capital, gearing and financial resources

Our Group has funded our operations principally with cash generated from our operations, bank borrowings and credit facilities provided by commercial banks in China. Our Group possesses sufficient cash and available banking facilities to meet capital commitments and working capital requirements.

As at 30 June 2017, our Group had restricted bank deposits, cash and bank balances of RMB2,179.5 million (31 December 2016: RMB2,037.8 million). The debt of our Group comprised of bank and other borrowings, obligations under finance leases and corporate bond totaled RMB3,012.5 million as at 30 June 2017 (31 December 2016: RMB2,524.7 million). Our Group increased bank borrowings to meet working capital and capital expenditure requirements during 1H 2017, which resulted in the increase in net gearing ratio from 27.5% as at 31 December 2016 to 43.7% as at 30 June 2017.

Inventories increased from RMB345.2 million as at 31 December 2016 to RMB430.4 million as at 30 June 2017. The increase in inventories was mainly driven by the increase in finished goods to meet strong demands in the third quarter 2017. Inventory turnover was 34 days for 1H 2017, as compared to 38 days for 1H 2016.

Trade receivables increased from RMB310.5 million as at 31 December 2016 to RMB506.2 million as at 30 June 2017. The increase in trade receivables was generally in line with the increase in our Group's total revenue. Trade receivables turnover was 28 days for 1H 2017, as compared to 39 days for 1H 2016. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded a decrease from RMB936.0 million as at 31 December 2016 to RMB851.5 million as at 30 June 2017. Trade payable turnover was 78 days for 1H 2017, as compared to 89 days for 1H 2016.

Current ratio continued to improve from 0.63 times as at 31 December 2016 to 0.71 times as at 30 June 2017.

Notes to financial ratios

- (1) *Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.*
- (2) *Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.*
- (3) *Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.*
- (4) *Current ratio equals current assets divided by current liabilities as of the end of the period.*
- (5) *Net gearing ratio equals the total of bank and other borrowings, obligations under finance leases and corporate bonds, net of bank and cash balances and restricted bank deposits, divided by the total equity as of the end of the period.*

MANAGEMENT DISCUSSION AND ANALYSIS

Cash flows

The following table sets forth a summary of cash flows for the period indicated:

	1H 2017 RMB'000 (Unaudited)	1H 2016 RMB'000 (Unaudited)
Net cash (used in)/from operating activities	(88,318)	594,958
Net cash used in investing activities	(313,615)	(170,501)
Net cash from/(used in) financing activities	318,959	(322,176)
Net (decrease)/increase in cash and cash equivalents	(82,974)	102,281
Cash and cash equivalents at the beginning of the period, represented by bank balances and cash	592,175	327,377
Cash and cash equivalents at the end of the period	509,201	429,658

During 1H 2017, as a result of the increase in inventories and trade receivables, our Group recorded net cash used in operating activities. Net cash used in investing activities mainly reflected the increase in restricted bank deposits. Due to the fact that our Group borrowed new bank borrowings to meet working capital and capital expenditure requirements, there was a net cash from financing activities during 1H 2017.

Capital expenditure

Our Group incurred approximately RMB24.4 million to enhance the productivity of existing plant and equipment, and approximately RMB54.0 million on construction in progress during 1H 2017.

Capital commitments and contingent liabilities

As at 30 June 2017, our Group had capital commitments, which were contracted but not provided for, for acquisition of property, plant and equipment and of a subsidiary of RMB10.3 million and RMB20.3 million respectively.

There was no contingent liabilities as at 30 June 2017.

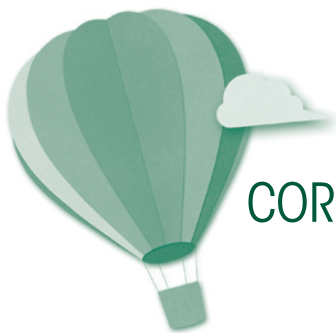
Pledge of assets

As at 30 June 2017, the carrying amount of our assets of RMB3,094.3 million and the fair value of our investment property of RMB166.7 million were pledged as collateral or security for our Group's bank loans, obligations under finance leases and corporate bond.

Foreign exchange risks

As the functional and reporting currency of our Group is 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 and have immaterial amount of bank balances denominated in foreign currencies, the exchange rate risk at our Group's operational level is not significant.

Nevertheless, our Company continues to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when needed.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

Our Company is committed to achieve a high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout 1H 2017.

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 the securities transactions by our Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code throughout 1H 2017.

AUDIT COMMITTEE

Our board of Directors (the "Board") has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our Company's financial reporting process, internal control and risk management system and to provide advice and comments to our Board. The audit committee consists of three independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie. Ms. Shan Xueyan is the chairlady of the audit committee. The audit committee has reviewed the unaudited condensed consolidated interim financial statements and the interim report for 1H 2017 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated interim financial statements of our Group for 1H 2017 have been reviewed by the Company's auditor, Grant Thornton Hong Kong Limited, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

EMPLOYEES AND REMUNERATION POLICIES

Our Group had approximately 3,170 employees as at 30 June 2017. The staff costs for 1H 2017 were RMB115.5 million (1H 2016: RMB86.7 million). The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to set performance-based remuneration which reflects market standards. Employees' remuneration packages are generally determined based on job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

INTERIM DIVIDEND

The Board has not recommended the payment of an interim dividend for 1H 2017 (1H 2016: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of our Company's shares (the "Shares").

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUFFICIENCY PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required under the Listing Rules throughout 1H 2017.

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 period.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2017, the Directors listed below had the following interests and short positions in the Shares, underlying Shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

Name of Director	Nature of interest	Number of share	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Beneficial owner	5,663,500	0.71%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	630,000	0.08%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	6,293,500	0.78%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company ⁽¹⁾	325,387,052	40.54%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	6,293,500	0.78%



CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Director	Nature of interest	Number of share	Approximate percentage of shareholding
Mr. Wang Changhai	Interest of a party to an agreement to acquire interests in our Company ⁽¹⁾	325,387,052	40.54%
	Beneficial owner	630,000	0.08%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement ⁽²⁾	5,663,500	0.71%

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 Paper Investments Limited ("China Sunshine"), China Sunrise Paper Holdings Limited ("China Sunrise") and any members of our Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai, is deemed to be interested in the 325,387,052 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 6,293,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai; Mr. Wang Dongxing is deemed to be interested in the 630,000 Shares held by Mr. Wang Changhai; and Mr. Wang Changhai is deemed to be interested in the 5,663,500 Shares held by Mr. Wang Dongxing.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 30 June 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 were as follows:

Name	Long position/ short position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	325,387,052	40.54%
China Sunshine ⁽¹⁾	Long	Interest of a controlled corporation	325,387,052	40.54%
Controlling Shareholders Group ⁽²⁾	Long	Interest of a party to an agreement to acquire interest in our Company	325,387,052	40.54%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	6,293,500	0.78%
Prime Capital Management Company Limited	Long	Beneficial interest	132,141,848	16.46%

Notes:

1. As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 325,387,052 Shares held by China Sunrise.
2. Pursuant to the Concert Parties Agreement, each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the Target Entities and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunshine owns the entire interest of China Sunrise, and the Controlling Shareholders Group owns the entire interest of China Sunshine, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code) is deemed to be interested in the 325,387,052 Shares held by China Sunrise. Further, Mr. Wang Dongxing is interested in 5,663,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 630,000 Shares as beneficial owner. Other members of the Controlling Shareholder Group, being member of the Concert Parties Agreement, are deemed to be interested in such Shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

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 30 June 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 ongoing 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 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 exercise of the options 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 options. 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 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").

CORPORATE GOVERNANCE AND OTHER INFORMATION

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; (b) the closing price of a Share as stated in the daily quotations of the Stock Exchange sheet on the Offer Date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date.

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-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme. As at the date of this report, the remaining life of the Share Option Scheme is approximately 3 months.

No option was granted, exercised, cancelled or lapsed during 1H 2017. There was no outstanding option granted under the Share Option Scheme as at 30 June 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 9.91% 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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 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 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 9 months.

Further details of the Share Award Scheme are set out in the Company’s announcement dated 27 June 2017 and the circular dated 1 September 2017.

No Awards were granted during 1H 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 is subject to, among others, the Shareholders’ approval at the extraordinary meeting to be held on 29 September 2017.

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



TO THE BOARD OF DIRECTORS OF CHINA SUNSHINE PAPER HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 18 to 38, which comprise the condensed consolidated statement of financial position as at 30 June 2017, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

25 August 2017

Kwong Kam Wing Kelvin

Practising Certificate No.: P05373

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	2,695,215	1,971,418
Cost of sales		(2,083,593)	(1,549,402)
Gross profit		611,622	422,016
Other income	5	55,863	46,764
Other gains or losses	6	(38,365)	(2,772)
Distribution and selling expenses		(136,851)	(136,826)
Administrative expenses		(120,783)	(85,184)
Finance costs	7	(134,296)	(144,562)
Share of profit/(loss) of a joint venture		6,292	(10,237)
Profit before income tax	9	243,482	89,199
Income tax expense	8	(72,518)	(24,454)
Profit and total comprehensive income for the period		170,964	64,745
Profit and total comprehensive income attributable to:			
Owners of the Company		168,479	61,854
Non-controlling interests		2,485	2,891
		170,964	64,745
Earnings per share for profit attributable to the owners of the Company during the period			
Basic and diluted (RMB)	11	0.21	0.08



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	12	3,276,653	3,353,933
Investment property	12	166,640	181,712
Prepaid lease payments	13	309,044	313,806
Goodwill		18,692	18,692
Deferred tax assets		8,246	8,184
Interest in a joint venture		77,139	70,847
Available-for-sale financial assets	14	6,000	8,000
Deposits and other receivables		387,386	366,407
		4,249,800	4,321,581
Current assets			
Prepaid lease payments	13	6,989	5,889
Inventories		430,424	345,246
Trade receivables	15	506,203	310,472
Bills receivable	16	774,763	532,016
Prepayments and other receivables		198,763	178,701
Restricted bank deposits		1,670,305	1,445,592
Bank balances and cash		509,201	592,175
		4,096,648	3,410,091
Current liabilities			
Trade payables	17	851,541	936,017
Bills payable	17	260,000	225,000
Other payables		285,484	214,240
Payable for construction work, machinery and equipment		18,505	15,047
Income tax payable		26,484	22,047
Obligations under finance leases	18	139,924	88,510
Deferred income		2,783	2,758
Discounted bills financing	19	1,952,867	1,989,892
Bank borrowings	20	2,101,906	1,769,150
Other borrowing		11,000	11,000
Corporate bond	21	100,000	100,000
		5,750,494	5,373,661
Net current liabilities		(1,653,846)	(1,963,570)
Total assets less current liabilities		2,595,954	2,358,011

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Capital and reserves			
Share capital		72,351	72,351
Reserves		1,689,137	1,543,704
<hr/>			
Equity attributable to owners of the Company		1,761,488	1,616,055
Non-controlling interests		146,039	151,898
<hr/>			
Total equity		1,907,527	1,767,953
<hr/>			
Non-current liabilities			
Obligations under finance leases	18	192,910	94,774
Bank borrowings	20	70,159	65,000
Corporate bond	21	396,623	396,250
Deferred income		19,642	21,045
Deferred tax liabilities		9,093	12,989
<hr/>			
		688,427	590,058
<hr/>			
Total equity and non-current liabilities		2,595,954	2,358,011

The condensed consolidated interim financial statements on pages 18 to 38 were approved by the board of directors on 25 August 2017 and are signed on its behalf by:

Wang Dongxing
Director

Wang Changhai
Director



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company											Total equity
	Share capital	Capital redemption reserve	Share premium	Merger reserve	Capital reserve	Assets revaluation reserve	Statutory surplus reserve	Discretionary surplus reserve	Retained profits	Total	Non-controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (audited)	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
Dividend paid to owners of the Company (note 10)	—	—	—	—	—	—	—	—	(20,579)	(20,579)	—	(20,579)
Dividend paid to non-controlling interests of a subsidiary of the Company	—	—	—	—	—	—	—	—	—	—	(14)	(14)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(5)	(5)
Transactions with owners	—	—	—	—	—	—	—	—	(20,579)	(20,579)	(19)	(20,598)
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	61,854	61,854	2,891	64,745
At 30 June 2016 (unaudited)	72,351	610	695,682	(2,776)	79,992	19,806	81,756	5,429	601,948	1,554,798	107,969	1,662,767
At 1 January 2017 (audited)	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 additional interest in a subsidiary	—	—	—	—	—	—	—	—	(411)	(411)	(13,089)	(13,500)
Capital contribution by non-controlling interests of a subsidiary of the Company	—	—	—	—	—	—	—	—	5,228	5,228	4,772	10,000
Dividend paid to owners of the Company (note 10)	—	—	—	—	—	—	—	—	(27,863)	(27,863)	—	(27,863)
Dividend paid to non-controlling interests of a subsidiary of the Company	—	—	—	—	—	—	—	—	—	—	(27)	(27)
Transactions with owners	—	—	—	—	—	—	—	—	(23,046)	(23,046)	(8,344)	(31,390)
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	168,479	168,479	2,485	170,964
At 30 June 2017 (unaudited)	72,351	610	695,682	(2,776)	79,992	7,015	107,982	5,429	795,203	1,761,488	146,039	1,907,527

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Operating activities		
Cash generated from operations	(16,279)	620,915
Tax paid	(72,039)	(25,957)
Net cash (used in)/from operating activities	(88,318)	594,958
Investing activities		
Interest received	10,615	22,612
Proceeds from disposal of property, plant and equipment	2,350	6,866
Proceeds from disposal of a subsidiary	—	54,450
Prepaid lease payments for the acquisition of land use rights	—	(8,214)
Additions of investment property	(75)	(576)
Purchase of property, plant and equipment	(73,292)	(65,983)
Loan to a joint venture	—	(50,000)
Increase in loan to a third party	(15,000)	—
Acquisition of additional interest in a subsidiary	(13,500)	—
Increase in restricted bank deposits	(224,713)	(129,656)
Net cash used in investing activities	(313,615)	(170,501)
Financing activities		
Interest paid	(116,091)	(145,180)
New bank borrowings raised	1,446,764	1,009,435
Repayment of bank borrowings	(1,108,849)	(1,143,470)
Repayment of other borrowings	—	(1,500)
Decrease in discounted bills financing	(37,025)	(5,600)
Proceeds from sale and finance lease back transactions	200,000	33,469
Repayment of obligations under finance leases	(47,950)	(48,737)
Dividend paid to non-controlling interests of a subsidiary of the Company	(27)	(14)
Dividend paid to owners of the Company	(27,863)	(20,579)
Proceeds from capital contribution of non-controlling interests of the Company	10,000	—
Net cash from/(used in) financing activities	318,959	(322,176)
Net (decrease)/increase in cash and cash equivalents	(82,974)	102,281
Cash and cash equivalents at beginning of the period, represented by bank balances and cash *	592,175	327,377
Cash and cash equivalents at end of the period	509,201	429,658

* The beginning balance at 1 January 2016 included bank balances and cash under assets classified as held for sale of RMB512,000.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (the “Company”) is a limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 12 December 2007.

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The Group has net current liabilities of approximately RMB1,653,846,000 as at 30 June 2017. The directors of the Company (the “Directors”) have evaluated the relevant available information and key assumptions 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 within twelve months, 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 bank borrowing facilities as necessary. Therefore, 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 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 condensed consolidated interim financial statements have been prepared on a going concern basis.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by Grant Thornton Hong Kong Limited in accordance with International Standards on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for an investment property which is measured at fair value, as appropriate.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, all amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's condensed consolidated interim financial statements for accounting period beginning on 1 January 2017.

The adoption of these amendments has no material impact on the results and financial position for the current and prior periods.

The Group has not early adopted any new and amended IFRSs that have been published but not yet effective for the current accounting period.

4. SEGMENT INFORMATION

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 to assess their performance.

(a) Segment result

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

Six months ended 30 June 2017

	Paper products					Total RMB'000
	White top linerboard RMB'000	Light- coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	
Revenue from external customers	724,009	1,098,550	322,882	436,666	113,108	2,695,215
Inter-segment revenue	—	—	—	—	249,524	249,524
Segment revenue	724,009	1,098,550	322,882	436,666	362,632	2,944,739
Segment profit	153,464	316,568	61,130	61,544	36,363	629,069



NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. SEGMENT INFORMATION (continued)

(a) Segment result (continued)

Six months ended 30 June 2016

	Paper products				Electricity and steam RMB'000	Total RMB'000
	White top linerboard RMB'000	Light-coated linerboard RMB'000	Core board RMB'000	Specialised paper products RMB'000		
Revenue from external customers	568,921	815,797	230,246	262,709	93,745	1,971,418
Inter-segment revenue	—	—	—	—	127,496	127,496
Segment revenue	568,921	815,797	230,246	262,709	221,241	2,098,914
Segment profit	105,610	210,070	47,630	40,277	21,146	424,733

(b) Reconciliation of segment profit

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit		
Segment profit	629,069	424,733
Unrealised profit on inter-segment sales	(42,331)	(23,816)
	586,738	400,917
Other income	54,992	44,936
Other gains or losses	(38,630)	(3,224)
Distribution and selling expenses	(136,851)	(136,826)
Administrative expenses	(109,815)	(74,792)
Finance costs	(119,244)	(131,575)
Share of profit/(loss) of a joint venture	6,292	(10,237)
Consolidated profit before income tax	243,482	89,199

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. SEGMENT INFORMATION (continued)

(b) Reconciliation of segment profit (continued)

Segment profit represents the gross profit earned by each paper product 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, certain finance costs and share of profit/(loss) of a joint venture to paper product segment and does not allocate income tax expense to both the paper product segment or the electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

- (c) 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.

5. OTHER INCOME

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest income on:		
Bank deposits	10,615	12,143
The balance with a joint venture (note i) (note 23(a))	8,978	10,469
Loan to a related company (note ii) (note 23(a))	1,312	—
Loan to a third party	78	—
Total interest income	20,983	22,612
Government grants (note iii)	33,545	23,300
Rental income from an investment property and other properties	1,335	852
	55,863	46,764

Notes:

- i. During the six months ended 30 June 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 ("Sunshine Oji")), a joint venture of the Company, at a weighted average effective interest rate of 6.18% per annum (six months ended 30 June 2016: 7.09% per annum).
- ii. During the six months ended 30 June 2017, the Group earned interest income from loans to a related company which a director of the Company has a direct interest in and significant influence over the entity at a fixed interest rate of 5.22% per annum (six months ended 30 June 2016: nil).
- iii. During the six months ended 30 June 2017, the Company's subsidiaries, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine")) and 昌樂新邁紙業有限公司 (Numat Paper Industry Co., Ltd.), were granted and received unconditional government subsidy from local government of approximately RMB21,533,000 and RMB11,281,000 respectively, the amounts of which were determined by reference to the amount of value-added tax paid (six months ended 30 June 2016: RMB21,846,000).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

6. OTHER GAINS OR LOSSES

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Change in fair value of an investment property	(15,147)	(3,047)
Gain from sale of scrap materials, net	3,359	—
Gain on disposal of a subsidiary (note 24)	—	8,067
Impairment loss on available-for-sale financial assets	(2,000)	—
Impairment loss on prepayments and other receivables	(2,490)	—
Loss on disposal of property, plant and equipment	(27,504)	(6,663)
Net foreign exchange gain/(loss)	2,283	(2,769)
Reversal of allowance for impairment of trade receivables	421	—
Others	2,713	1,640
	(38,365)	(2,772)

7. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest expenses on:		
Discounted bills financing	54,209	45,115
Bank and other borrowings	54,616	73,674
Finance leases	4,964	380
Corporate bond	21,383	26,011
Others	719	—
	135,891	145,180
Less: Interest capitalised in construction in progress	(1,595)	(618)
	134,296	144,562

Borrowing costs capitalised during the six months ended 30 June 2017 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 5.22% to 6.50% (six months ended 30 June 2016: 5.90%) per annum to expenditure on construction in progress.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	76,476	25,138
Deferred tax credit	(3,958)	(684)
Charge for the period	72,518	24,454

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

No provision for Hong Kong Profit Tax had been made for the six months ended 30 June 2017 and 2016 as the Group did not have any assessable profit arising in Hong Kong during both periods.

9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Wages and salaries	101,391	73,665
Retirement benefits schemes contributions	14,114	13,000
Total staff costs (including directors' emoluments)	115,505	86,665
Cost of inventories recognised as an expense	1,996,969	1,487,073
Depreciation of property, plant and equipment	125,771	119,870
Release of prepaid lease payments	3,662	2,962



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. DIVIDENDS

During the current interim period, a final dividend of HK\$0.04 (six months ended 30 June 2016: HK\$0.03) 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) (six months ended 30 June 2016: HK\$24,078,000 (equivalent to approximately RMB20,579,000)) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 8 June 2017.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 was based on the profit of RMB168,479,000 (six months ended 30 June 2016: RMB61,854,000) for the period attributable to owners of the Company, and the weighted average number of 802,588,000 (six months ended 30 June 2016: 802,588,000) ordinary shares in issue during the six months ended 30 June 2017.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2017 and 2016. The basic earnings per share equals to the diluted earnings per share.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB29,854,000 (six months ended 30 June 2016: RMB13,529,000) for proceeds of RMB2,350,000 (six months ended 30 June 2016: RMB6,866,000), resulting in a loss on disposal of RMB27,504,000 (six months ended 30 June 2016: RMB6,663,000).

In addition, during the current interim period, the Group incurred approximately RMB24,392,000 (six months ended 30 June 2016: RMB14,301,000) on the acquisition of property, plant and equipment and approximately RMB53,953,000 (six months ended 30 June 2016: RMB61,572,000) on construction in progress in order to maintain its manufacturing capabilities, which included interest capitalisation of approximately RMB1,595,000 (six months ended 30 June 2016: RMB618,000), and transfer from construction in progress to investment property of nil (six months ended 30 June 2016: RMB130,000).

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12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

The Group's investment property as at the end of the current interim period was remeasured to fair value by reference to a valuation performed by BMI Appraisals Limited, independent qualified professional valuer not connected with the Group. 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. During the current interim period, the Group incurred subsequent expenditure of approximately RMB75,000 (six months ended 30 June 2016: RMB576,000) for the investment property and had a transfer from construction in progress to investment property of nil (six months ended 30 June 2016: RMB130,000). The resulting decrease in fair value of investment property of RMB15,147,000 has been recognised directly in profit or loss for the six months ended 30 June 2017 (six months ended 30 June 2016: decrease in fair value of investment property of RMB3,047,000).

The investment property located in Weifang, Shandong, the PRC with a fair value of RMB166,640,000 as at 30 June 2017 (31 December 2016: RMB181,712,000) is pledged for counter guarantee under the guarantee agreement of the corporate bond (note 21) 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").

13. PREPAID LEASE PAYMENTS

As at 30 June 2017, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying amount of RMB46,467,000 (31 December 2016: RMB49,288,000) which are located in the PRC. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Unlisted securities		
— Equity securities in the PRC, at cost	8,000	8,000
Accumulated impairment losses	(2,000)	—
Net carrying amount of unlisted securities	6,000	8,000



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15. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 45 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
0–30 days	400,508	261,426
31–90 days	92,483	37,303
91–365 days	13,165	11,743
Over 1 year	47	—
	506,203	310,472

16. BILLS RECEIVABLE

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

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
0–90 days	436,836	186,696
91–180 days	187,327	309,280
181–365 days	150,600	36,040
	774,763	532,016

As at 30 June 2017, the Group has discounted bills receivable of RMB179,320,000 (31 December 2016: RMB193,026,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivable and has recognised the cash received upon the discounting as discounted bills financing (note 19).

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For the six months ended 30 June 2017

17. TRADE AND BILLS PAYABLES

The following is an analysis of trade and bills payables by age, presented based on goods received date at the end of the reporting period:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
0-90 days	750,347	790,717
91-365 days	350,836	329,251
Over 1 year	10,358	41,049
	1,111,541	1,161,017

All the bills payable as at 30 June 2017 and 31 December 2016 are trading nature and will mature within twelve months respectively. At the end of the reporting period, certain of the Group's bank deposits were pledged to secure bills payable granted to the Group.

18. OBLIGATIONS UNDER FINANCE LEASES

The Group has entered into several sale and leaseback transactions with independent third parties by way of sale and lease back of certain machineries. In accordance with the lease agreements, the term of the lease was 2 to 5 years and the Group has the option to purchase the assets at a nominal consideration upon the end of the lease term. Such transaction was considered as sale and leaseback arrangement resulting in a finance lease.

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current liabilities	139,924	88,510
Non-current liabilities	192,910	94,774
	332,834	183,284

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 4.38% to 7.50% (31 December 2016: 6.30% to 7.73%) per annum.



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18. OBLIGATIONS UNDER FINANCE LEASES (continued)

	Minimum lease payments		Present value of minimum lease payments	
	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Amounts payable under finance leases				
Within one year	155,509	97,217	139,924	88,510
In more than one year but not more than two years	122,396	70,078	114,298	66,388
In more than two years but not more than five years	81,213	29,213	78,612	28,386
	359,118	196,508	332,834	183,284
Less: future finance charges	(26,284)	(13,224)	—	—
Present value of lease obligations	332,834	183,284	332,834	183,284
Less: Amount due for settlement within 12 months (shown under current liabilities)			(139,924)	(88,510)
Amount due for settlement after 12 months			192,910	94,774

The Group's obligations under finance leases are secured by the lessor's charge over certain property, plant and equipment.

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19. DISCOUNTED BILLS FINANCING

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Discounted bills financing		
Comprising:		
Discounted bills receivable from third parties (note 16)	149,320	193,026
Discounted bills receivable from a joint venture (note 16)	30,000	—
Discounted bills receivable from subsidiaries of the Group	1,773,547	1,796,866
Total	1,952,867	1,989,892

Discounted bills financing represents the amount of cash received from discounting bills receivable to banks with full recourse.

During the current interim period, bank bills issued by certain subsidiaries of the Group to the suppliers and other subsidiaries within the Group were discounted to the banks for financing. At the end of the reporting period, certain of the Group's bank deposits were pledged to secure discounted bills financing granted to the Group.

20. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,446,764,000 (six months ended 30 June 2016: RMB1,009,435,000), and repaid loans amounting to RMB1,108,849,000 (six months ended 30 June 2016: RMB1,143,470,000). The newly raised loans bear interest from 3.59% to 6.60% per annum (six months ended 30 June 2016: 1.80% to 6.60%). At the end of the reporting period, certain of the Group's property, plant and equipment and land use rights were pledged to secure bank borrowings granted to the Group.

21. 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% per annum. The corporate bond is guaranteed by SME Guarantee, and is with counter-guarantee arrangement with the Group's one piece of investment property of RMB166,640,000 (31 December 2016: RMB181,712,000) (note 12), and will be repaid with 20% of offering size annually from the year 2017 to year 2021.



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22. CAPITAL COMMITMENTS

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated interim financial statements in respect of:		
— acquisition of property, plant and equipment	10,266	33,004
— acquisition of a subsidiary	20,325	—
Total	30,591	33,004

23. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sales of electricity and steam to a non-controlling shareholder of a subsidiary	55,073	49,700
Purchases of goods from a non-controlling shareholder of a subsidiary	2,584	—
Interest income earned from a joint venture (note 5)	8,978	10,469
Interest income earned from a related company (note 5)	1,312	—

Besides the transaction disclosed above, the Group purchased certain wood pulp on behalf of Sunshine Oji as an agent and then sold it for RMB5,755,665 to Sunshine Oji for its business activities during the six months ended 30 June 2016. No such transaction took place during the six months ended 30 June 2017.

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23. RELATED PARTY TRANSACTIONS (continued)

(b) Balance with related parties

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Loan to a related company (note i)	—	36,916
Trade receivables from a non-controlling shareholder of a subsidiary (note ii)	11,743	15,133
Trade payables to a non-controlling shareholder of a subsidiary (note iii)	2,035	—
Other receivables from a joint venture		
Receivables from the disposal of buildings, equipment and land used right	76,480	76,480
Receivables from the trial run operation financing	146,828	146,828
Interest and other receivables	75,883	74,262
Balance due from a joint venture (note iv)	299,191	297,570

Notes:

- i) The balance was reclassified as loan to a third party as at 30 June 2017 due to disposal of the entire interest in the related company by a director of the Company during the period. The balance will be collected after 12 months from the end of the reporting period.
- ii) The trade receivables from a non-controlling shareholder of a subsidiary are aged within 30 days, with credit term of 30 days granted by the Group.
- iii) Trade payables to the non-controlling shareholder of a subsidiary are non-interest bearing and unsecured. The Group was granted credit period of 10 days (31 December 2016: nil). Trade payables are usually settled by cash.
- iv) The balance is unsecured, carries interest at 6.18% per annum (31 December 2016: 6.80% per annum) and will be collected after 12 months from the end of the reporting period.



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23. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Short term employee benefit	6,698	3,216
Retirement benefit scheme contributions	18	22
	6,716	3,238

24. DISPOSAL OF A SUBSIDIARY

On 18 December 2015, the Group entered into an agreement with an independent third party for the disposal of 100% equity interests in Kunshan Sunshine Huamai Packaging Co., Ltd ("Kunshan Sunshine"), a 100% indirectly owned subsidiary of the Company, at a consideration of RMB59,000,000. As at 31 December 2015, the Directors determine the disposal is highly probable and expect the disposal to be completed within 12 months from the date of agreement. Accordingly, the relevant assets and liabilities of Kunshan Sunshine are classified as held for sale respectively at 31 December 2015. On 3 June 2016, a supplement agreement was signed to increase the consideration to RMB60,500,000. The disposal was completed on 23 June 2016, on which date the control of Kunshan Sunshine was transferred to this third party. The net assets of Kunshan Sunshine at the date of disposal were as follows:

	RMB'000
Cash consideration	60,500

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24. DISPOSAL OF A SUBSIDIARY (continued)

	As at 23 June 2016 RMB'000
Analysis of assets and liabilities over which control was lost:	
Investment properties	58,757
Deferred tax assets	525
Trade and other receivables	65
Other payables	(659)
Income tax payables	(486)
Deferred income	(1,800)
Deferred tax liabilities	(3,964)
Net assets disposed of	52,438
	As at 30 June 2016 RMB'000
Gain on disposal of a subsidiary:	
Consideration received and receivable	60,500
Net assets disposed of	(52,438)
Non-controlling interests at disposal date	5
Gain on disposal (note 6)	8,067
Net cash inflow arising on disposal:	
Cash consideration received	54,450