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

2018
INTERIM REPORT

*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

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

Conyers Trust Company
(Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
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

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15 Queen's Road Central
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STOCK CODE

2002

WEBSITE

www.sunshinepaper.com.cn

Operation Review and Outlook

OPERATION REVIEW

During the first half of 2018, continuous implementation of more stringent environmental policies had imposed tremendous pressure on costs for the paper manufacturing industry. Prompted by high-handed measures on environmental protection, small-scale enterprises with poor profitability had accelerated the process of eliminating excessive production capacities. The overall industrial structure achieved further optimisation and adjustments, while the demand-supply condition had also seen certain degree of improvement. Such measure had enabled the Group to enhance their comprehensive competitiveness and further boosted utilisation of existing production capacities. During the period ended 30 June 2018, main products of the Group achieved a sales volume of 635,000 tonnes, representing an increase as compared to 619,000 tonnes for the corresponding period last year. Our sales revenue increased from RMB2.695 billion for the period ended 30 June 2017 to RMB3.318 billion for the period ended 30 June 2018, representing a growth of 23.1%.

Currently, the Company primarily produces various kinds of white top linerboard, coated-white top linerboard and core board, cultivates the market meticulously and devotes to meeting the needs from different clients. The Group insists on the development strategy of differentiation and conducting self-managed research and development of white top linerboard and coated-white top linerboard, which possess a variety of patents. Ever since we entered the market, the Group have been standing firmly at the number one spot of each segmented sector by making use of the advantages given by our light-weight and high intensity white top linerboard and light-coated linerboard, which contribute to the Company's primary productive energy. In the first half of 2018, the sales of these two main products amounted to 508,000 tonnes, which was the source of most of the Group's income.

BUSINESS OUTLOOK

With PRC's structural reform on the supply side in the future, the concentration rate of paper manufacturing enterprises will be further enhanced. At the same time, with rising household living standards and awareness for environmental protection, market demand for packaging papers will maintain continuous growth. The Group is confident about the prospects of the paper manufacturing industry and will continue to grasp opportunities at this transitional junction. We will proceed in full swing with the implementation of strategies for expanding its principal business and actively promote the development of the high-intensity corrugated paper project, with the aim to expand and enhance our paper products and thereby achieving leapfrog development of our enterprises.

Our joint venture Sunshine Oji (Shouguang) Specialty Paper Co., Ltd. completed the second phase of its high-end decoration paper project and commenced pilot production. The project caters for the market's requirements for diverse assortment and customised products. It facilitates optimisation of product structure as well as expansion of market share, thereby enhancing the market competitiveness and integrated strength of the Company, boosting economies of scale, and enabling the Group to stride firmly towards the high-end realm of decoration papers, which in turn make larger contribution to the Group.

The Group will grasp the propitious opportunity to replace its old growth drivers with new ones. Leveraging on effective informatised management approaches and advanced operating philosophies, we deliver high quality and efficient services to customers and facilitate sustainable organic growth of the corporation. Meanwhile, the Group will also continue to strictly uphold high standards of environmental-friendly operation and the principle of harmonious co-existence with nature by resolutely implementing measures on energy conservation and emission reduction, therefore achieving mutually beneficial relationship between economic development and ecological balance.

REVENUE

For the first six months ended 30 June 2018 ("1H 2018"), our Group's total revenue was RMB3,318.4 million, representing an increase of 23.1% as compared to that of RMB2,695.2 million for the first six months ended 30 June 2017 ("1H 2017").

As a result of the recovery in demand of paper products and the state policy gradually eliminated obsolete production facilities and backward production capacity in paper industry, sales volume and average selling price of paper products of our Group continued to increase during 1H 2018. Sales of paper products strongly increased by 24.0% to RMB3,202.2 million for 1H 2018 with sales volume of around 635,000 tonnes, as compared to that of RMB2,582.1 million and around 619,000 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 2018			1H 2017		
	RMB'000	**GP margin (%)**	**% of total revenue**	RMB'000	GP margin (%)	% of total revenue
White top linerboard	**904,863**	**16.1**	**27.3**	724,009	21.2	26.8
Coated-white top linerboard*	**1,325,397**	**21.1**	**39.9**	1,098,550	28.8	40.8
Core board	**390,054**	**27.4**	**11.8**	322,882	18.9	12.0
Specialised paper products	**581,860**	**12.1**	**17.5**	436,666	14.1	16.2
Subtotal of sales of paper products	**3,202,174**	**18.8**	**96.5**	2,582,107	23.0	95.8
Sales of electricity and steam	**116,209**	**13.3**	**3.5**	113,108	10.0	4.2
Total revenue	**3,318,383**	**19.1**	**100.0**	2,695,215	22.7	100.0

* previously known as light-coated linerboard

COST OF SALES

Cost of sales was RMB2,685.3 million for 1H 2018, representing an increase of 28.9% as compared to that of RMB2,083.6 million for 1H 2017. 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 RMB633.0 million for 1H 2018, from RMB611.6 million for 1H 2017. Gross profit margin recorded a decrease of 3.6 percentage points from 22.7% for 1H 2017 to 19.1% for 1H 2018 because of increased material purchase costs.

OTHER PROFIT AND LOSS ITEMS

Other income of RMB105.8 million for 1H 2018 (1H 2017: RMB55.9 million) mainly consisted of interest income on bank deposits of RMB13.9 million, interest income earned from a joint venture and a third party of RMB9.0 million, rental income of RMB1.2 million and government grants of RMB81.7 million.

Other losses of RMB81.3 million for 1H 2018 (1H 2017: RMB38.4 million) mainly consisted of gain from sale of scrap materials of RMB9.4 million, loss of disposal of property, plant and equipment of RMB3.8 million, net foreign exchange losses of RMB1.9 million, impairment loss on property, plant and equipment of RMB89.0 million.

Products of the packaging business achieved a very low margin level. In 1H 2018, it is estimated that the recoverable amount of the related equipment was lower than the current carrying amount. With reference to the valuation performed by an independent external valuer, there were indicators of impairment in respect of the equipment. The Group therefore recognised an impairment loss on property, plant and equipment of RMB89.0 million.

Distribution and selling expenses was RMB140.4 million for 1H 2018, which was comparable to that of RMB136.9 million for the corresponding period last year. As a percentage of revenue, it decreased from 5.1% for 1H 2017 to 4.2% for 1H 2018.

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 expansion of operation size of our Group, administrative expenses increased by 15.6%, from RMB120.8 million for 1H 2017 to RMB139.7 million for 1H 2018. As a percentage of revenue, it slightly decreased from 4.5% for 1H 2017 to 4.2% for 1H 2018.

Finance costs recorded a decrease of 7.7%, from RMB134.3 million for 1H 2017 to RMB124.0 million for 1H 2018.

During 1H 2018, there was a share of profit of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB7.1 million, representing an increase of 12.7% as compared to that of RMB6.3 million for the first six months ended 30 June 2017. 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 RMB72.5 million for 1H 2017 to RMB74.8 million for 1H 2018. The applicable enterprise income tax rate for our subsidiaries for both 1H 2018 and 1H 2017 were roughly the same. Effective tax rate for 1H 2018 and 1H 2017 was 28.7% and 29.8%, respectively.

PROFIT AND TOTAL COMPREHENSIVE INCOME

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of RMB179.0 million for the first six months ended 30 June 2018 (1H 2017: RMB168.5 million).

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 2018, our Group had restricted bank deposits, cash and bank balances of RMB2,241.1 million (31 December 2017: RMB1,956.0 million). The debt of our Group comprised of bank and other borrowings, obligations under finance leases and corporate bond totaled RMB3,780.7 million as at 30 June 2018 (31 December 2017: RMB3,548.7 million). Net gearing ratio decreased from 72.2% as at 31 December 2017 to 64.0% as at 30 June 2018.

Inventories decreased from RMB768.1 million as at 31 December 2017 to RMB576.7 million as at 30 June 2018. Inventory turnover was 46 days for 1H 2018, as compared to 34 days for 1H 2017.

Trade receivables increased from RMB425.6 million as at 31 December 2017 to RMB615.0 million as at 30 June 2018. The increase in trade receivables was generally in line with the increase in our Group's total revenue. Trade receivables turnover was 29 days for 1H 2018, as compared to 28 days for 1H 2017. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded an increase from RMB853.3 million as at 31 December 2017 to RMB880.2 million as at 30 June 2018. Trade payable turnover was 59 days for 1H 2018, as compared to 78 days for 1H 2017.

Current ratio continued to improve from 0.73 times as at 31 December 2017 to 0.76 times as at 30 June 2018.

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.

Capital expenditure

For 1H 2018, our capital expenditure was approximately RMB359.4 million, which mainly involves the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

Capital commitments and contingent liabilities

As at 30 June 2018, our Group had capital commitments, which were contracted but not provided for acquisition of property, plant and equipment of RMB349.1 million.

There was no contingent liabilities as at 30 June 2018.

Pledge of assets

As at 30 June 2018, the carrying amount of our assets of RMB1,888.5 million and the fair value of our investment property of RMB162.9 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 has 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

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 2018.

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 2018.

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 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 financial statements and the interim report for 1H 2018 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated financial statements of our Group for 1H 2018 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 4,000 employees as at 30 June 2018. The staff costs for 1H 2018 were RMB141.7 million (1H 2017: RMB115.5 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 declaration of an interim dividend for 1H 2018 (1H 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of Company's shares.

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 2018.

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 2018, 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)	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%

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)	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 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 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 30 June 2018, 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	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 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 2018.

SHARE OPTION SCHEME

The share option scheme (the "2017 Share Option Scheme") adopted by the Company on 12 December 2007 has expired on 12 December 2017. There were no outstanding options granted under the 2017 Share Option Scheme as of the expiry date.

On 31 May 2018 (the "Adoption Date"), the Company adopted the 2018 share option scheme (the "2018 Share Option Scheme"). The purpose of the 2018 Share Option Scheme is to give the Eligible Persons (as defined below) an opportunity to have a personal stake in our Company and help motivate Eligible Persons to optimise their future contributions to the 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 the Group, and additionally in the case of Executive, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

For the purpose of the 2018 Share Option Scheme, Eligible Persons include any of the following persons: (a) an Executive or an Employee; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the 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 the Group; (g) an associate of any of the foregoing persons; and (h) any person involved in the business affairs of the Company whom the Board determines to be appropriate to participate in the 2018 Share Option Scheme.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2018 Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 81,936,200 Shares (representing approximately 10% of the total number of Shares in issue as at the Adoption Date and representing approximately 10% of the total number of Shares in issue as at the date of this interim report) (the "Scheme Mandate Limit") provided that: (a) the Company may at any time as the Board may think fit seek approval from the 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 Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by the Shareholders in general meeting where the Scheme Mandate Limit is refreshed; and (b) the Company may seek separate approval from the Shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to its shareholders containing the details and information required under the Listing Rules; and (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2018 Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of the Shares in issue from time to time. No options may be granted under the 2018 Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

No option may be granted to any one 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 the Shares in issue from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting.

Subject to the terms of the 2018 Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the 2018 Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the 2018 Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the option shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of this Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

Subject to the terms in the 2018 Share Option Scheme, but only insofar as and for so long as the Listing Rules require, where any offer of an option is proposed to be made to a director, chief executive or a substantial shareholder of the Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of the Company (excluding the independent non-executive Director who or whose associates is the grantee of an option).

Where any grant of options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and (b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the Shareholders. The Company shall send a circular to the shareholders. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting. Approval from the shareholders of the Company is required for any change in the terms of options granted to a participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

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 offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the 2018 Share Option Scheme.

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 the Company of HK$1.0 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the offer date (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 the 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 Stock Exchange's daily quotations 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 2018 Share Option Scheme, the 2018 Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date, being 31 May 2018, after which no further options will be granted or offered but the provisions of the 2018 Share Option Scheme shall remain in full force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the 2018 Share Option Scheme. As at the date of this report, the remaining life of the 2018 Share Option Scheme is approximately 9 years and 9 months.

Further details of the 2018 Share Option Scheme are set out in the Company's circular dated 27 April 2018.

No option was granted, exercised, cancelled or lapsed during 1H 2018.

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 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 8 years and 10 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 2018.

Independent Review Report on Condensed Consolidated Interim Financial Information

Grant Thornton
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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 19 to 46, which comprise the condensed consolidated statement of financial position as at 30 June 2018, 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 period 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.

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

29 August 2018

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 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	**3,318,383**	2,695,215
Cost of sales		**(2,685,340)**	(2,083,593)
Gross profit		**633,043**	611,622
Other income	5	**105,823**	55,863
Other gains or losses	6	**(81,297)**	(38,365)
Distribution and selling expenses		**(140,371)**	(136,851)
Administrative expenses		**(139,722)**	(120,783)
Finance costs	7	**(124,014)**	(134,296)
Share of profit of a joint venture		**7,091**	6,292
Profit before income tax	9	**260,553**	243,482
Income tax expense	8	**(74,796)**	(72,518)
Profit and total comprehensive income for the period		**185,757**	170,964
Profit and total comprehensive income attributable to:			
Owners of the Company		**178,976**	168,479
Non-controlling interests		**6,781**	2,485
		185,757	170,964
Earnings per share for profit attributable to the owners of the Company during the period			
Basic and diluted (RMB)	11	**0.22**	0.21

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	12	**3,358,558**	3,460,983
Investment property	12	**162,879**	162,879
Prepaid lease payments	13	**369,692**	327,046
Goodwill		**30,326**	30,326
Deferred tax assets		**34,958**	11,498
Interest in a joint venture		**210,633**	203,542
Deposits and other receivables		**184,322**	238,903
Deposits for acquisition for property, plant and equipment		**338,872**	26,172
		4,690,240	4,461,349
Current assets			
Prepaid lease payments	13	**8,448**	7,317
Inventories		**576,739**	768,055
Trade receivables	14	**615,013**	425,576
Bills receivables	15	**895,032**	765,598
Prepayments and other receivables		**255,317**	165,778
Income tax recoverable		**186**	313
Restricted bank deposits		**1,644,707**	1,481,484
Bank balances and cash		**596,349**	474,519
		4,591,791	4,088,640
Current liabilities			
Contract liabilities		**62,464**	—
Trade payables	16	**880,205**	853,282
Bills payables	16	**337,000**	245,000
Other payables		**161,419**	135,779
Payable for construction work, machinery and equipment		**40,735**	37,792
Income tax payable		**59,934**	34,655
Obligations under finance leases	17	**269,698**	165,571
Deferred income		**2,405**	2,405
Discounted bills financing	18	**1,522,940**	1,455,751
Bank borrowings	19	**2,574,912**	2,551,969
Other borrowing		**10,000**	10,000
Corporate bond	20	**100,000**	100,000
		6,021,712	5,592,204

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Net current liabilities		**(1,429,921)**	(1,503,564)
Total assets less current liabilities		**3,260,319**	2,957,785
Capital and reserves			
Share capital		**73,779**	73,779
Reserves		**2,072,135**	1,945,811
Equity attributable to owners of the Company		**2,145,914**	2,019,590
Non-controlling interests		**260,277**	187,545
Total equity		**2,406,191**	2,207,135
Non-current liabilities			
Obligations under finance leases	17	**343,914**	210,659
Bank borrowings	19	**184,229**	213,211
Corporate bond	20	**297,901**	297,321
Deferred income		**17,530**	18,665
Deferred tax liabilities		**10,554**	10,794
		854,128	750,650
Total equity and non-current liabilities		**3,260,319**	2,957,785

The condensed consolidated interim financial statements on pages 19 to 46 were approved by the board of directors on 29 August 2018 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 2018

	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 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
At 31 December 2017 as originally presented (audited)	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
Adjustment on initial application of IFRS 9 (note 3)	—	—	—	—	—	—	—	—	(4,291)	(4,291)	—	(4,291)
Adjusted balance at 1 January 2018	**73,779**	**610**	**722,957**	**(2,776)**	**86,656**	**7,015**	**154,519**	**1,078**	**971,461**	**2,015,299**	**187,545**	**2,202,844**
Capital contribution by non-controlling interests of a subsidiary of the Company	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**66,000**	**66,000**
Dividend paid to owners of the Company (note 10)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(48,361)**	**(48,361)**	**—**	**(48,361)**
Dividend paid to non-controlling interests of a subsidiary of the Company	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(49)**	**(49)**
Transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(48,361)**	**(48,361)**	**65,951**	**17,590**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**178,976**	**178,976**	**6,781**	**185,757**
At 30 June 2018 (unaudited)	**73,779**	**610**	**722,957**	**(2,776)**	**86,656**	**7,015**	**154,519**	**1,078**	**1,102,076**	**2,145,914**	**260,277**	**2,406,191**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating activities		
Cash generated from operations	**654,420**	(16,279)
Tax paid	**(73,090)**	(72,039)
Net cash from/(used in) operating activities	**581,330**	(88,318)
Investing activities		
Interest received	**13,929**	10,615
Proceeds from disposal of property, plant and equipment	**139,223**	2,350
Additions of investment property	**—**	(75)
Purchase of property, plant and equipment	**(359,351)**	(73,292)
Decrease/(Increase) in loan to a third party	**20,000**	(15,000)
Acquisition of additional interest in a subsidiary	**—**	(13,500)
Additions of deposits for acquisition property, plant and equipment	**(312,700)**	—
Additions of guarantee deposits on obligations under finance leases	**(10,765)**	—
Increase in restricted bank deposits	**(163,223)**	(224,713)
Net cash used in investing activities	**(672,887)**	(313,615)
Financing activities		
Interest paid	**(102,735)**	(116,091)
New bank borrowings raised	**1,660,807**	1,446,764
Repayment of bank borrowings	**(1,666,846)**	(1,108,849)
Increase/(Decrease) in discounted bills financing	**67,189**	(37,025)
Proceeds from sale and finance lease back transactions	**345,650**	200,000
Repayment of obligations under finance leases	**(108,268)**	(47,950)
Dividend paid to non-controlling interests of a subsidiary of the Company	**(49)**	(27)
Dividend paid to owners of the Company	**(48,361)**	(27,863)
Proceeds from capital contribution of non-controlling interests of the Company	**66,000**	10,000
Net cash from financing activities	**213,387**	318,959
Net increase/(decrease) in cash and cash equivalents	**121,830**	(82,974)
Cash and cash equivalents at beginning of the period, represented by bank balances and cash	**474,519**	592,175
Cash and cash equivalents at end of the period	**596,349**	509,201

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

2. BASIS OF PREPARATION

The condensed consolidated 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 RMB1,429,921,000 as at 30 June 2018. 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 interim consolidated 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 2017.

These condensed interim consolidated 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".

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 2017. Except for those disclosed in note 3(a) below, the effect of the adoption of these new and revised standards, amendments and interpretations was not material to the Group's results of operations or financial position.

(a) New and amended IFRSs adopted as at 1 January 2018

In the current 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 the Group's operations and effective for the Group's condensed consolidate interim financial statements for the annual period beginning on 1 January 2018.

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

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 has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

In summary, the following reclassification was made to the amounts recognised in the condensed consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount as at 31 December 2017 under IAS 18	**Reclassification**	**Carrying amount as at 1 January 2018 under IFRS 15**
	RMB'000	RMB'000	RMB'000
Current liabilities			
Other payables	135,779	(51,152)	84,627
Contract liabilities	—	51,152	51,152

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) New and amended IFRSs adopted as at 1 January 2018 (Continued)

IFRS 15 "Revenue from Contracts with Customers" (Continued)

The contract liabilities primarily relate to the advance from customers for sales of paper products.

The full amount of RMB51,152,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2018.

The adoption of IFRS 15 has no material impact on the Group's condensed consolidated statement of profit or loss and other comprehensive income and the condensed consolidated statement of cash flows.

IFRS 9 "Financial instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". 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.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- for trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

- for other receivables and other financial assets, the Group applies either 12-month expected credit losses or life time expected credit loss depending on whether there has been a significant increase in credit risk since initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings:

	Impact of adopting IFRS 9 on opening balance RMB'000
Retained earnings	
Recognition of expected credit losses under IFRS 9	(4,291)
Impact at 1 January 2018	(4,291)

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out in note 3(c)(ii).

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Issued but not yet effective IFRSs

The Group has not applied any new and amended IFRSs that have been published by the IASB but are not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and amendments, but is not yet in a position to state whether they would have a significant impact on its results and financial position.

Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's condensed consolidated interim financial statements.

IFRS 16 "Leases"

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

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 at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB129,000, 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Issued but not yet effective IFRSs (Continued)

IFRS 16 "Leases" (Continued)

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.

(c) Significant accounting policies

The condensed consolidated interim financial statements has been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2017, except for the effects of applying IFRS 15 and IFRS 9.

(i) Revenue Recognition

Revenue arises mainly from the sales of paper products and generation of electricity and steam.

To determine whether to recognise revenue, the Group follows a 5-step process:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Sales of goods

Revenue from the sales of paper products for which control of assets is transferred at a point in time are recognised when the goods are delivered to customers. The Group does not provide any sales-related warranties. There is no right of return by customers under the Group's standard contract terms.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Significant accounting policies (Continued)

(i) Revenue Recognition (Continued)

Sales of electricity and steam

Revenue from the sales of electricity and steam for which control of assets is transferred at a point in time are recognised when electricity and steam are generated and transmitted or delivered to the customers.

Interest income from a financial asset

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

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

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts in the condensed consolidated statement of financial position.

(ii) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Significant accounting policies (Continued)

(ii) Financial instruments (Continued)

Classification and initial measurement of financial assets (Continued)

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss ("FVTPL")
- fair value through other comprehensive income ("FVOCI")

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for impairment of trade receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's trade receivables, bills receivables, other receivables, restricted bank deposits and bank balances and cash fall into this category of financial instruments.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Significant accounting policies (Continued)

(ii) Financial instruments (Continued)

Impairment of financial assets

IFRS 9's new impairment requirements use more forward-looking information to recognise expected credit losses — the "expected credit loss" ("ECL") model. This replaces IAS 39's "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and trade and other receivables.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date. However, none of the Group's financial assets fall into this category.

"12-month expected credit losses" are recognised for the first category while "lifetime expected credit losses" are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The adoption of IFRS 9 led to a decrease in trade receivables of approximately RMB319,000, decrease in other receivables of approximately RMB3,972,000 and a decrease of retained earnings amounting to approximately RMB4,291,000.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Significant accounting policies (Continued)

(ii) Financial instruments (Continued)

Impairment of financial assets (Continued)

Trade receivables

The Group makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. Individually impaired trade receivables are related to customers who are experiencing unexpected economic difficulties. The Group expected that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. The loss allowances as at 1 January 2018 was determined for trade receivable as follows:

	Less than 31 days past due RMB'000	31 days to 365 days past due RMB'000	Over 365 days past due RMB'000	Total RMB'000
At 1 January 2018				
Expected loss rate	0.3%	1.0%	50%	
Gross carrying amount (excluding receivables assessed individually)	41,119	15,943	73	57,135
Loss allowance provision	123	159	37	319
Individually impaired receivables				9,530
				9,849

Other receivables from a joint venture, loans to a third party and other receivables

Impairment on other receivables from a joint venture, loans to a third party and other receivables are measured as either 12-month expected credit losses or life time expected credit loss depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group has concluded that the impact of expected credit loss on other receivables from a joint venture is RMB2,857,000, loans to a third party is RMB1,078,000 and remaining other receivables is RMB37,000 as at 1 January 2018.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Significant accounting policies (Continued)

(ii) Financial instruments (Continued)

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include 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.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges that are reported in profit or loss are included within finance costs.

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 2018 (unaudited)

	Paper products					
	White top linerboard RMB'000	Coated-white top linerboard* RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	Total RMB'000
Revenue from external customers	904,863	1,325,397	390,054	581,860	116,209	3,318,383
Inter-segment revenue	—	—	—	—	235,358	235,358
Segment revenue	904,863	1,325,397	390,054	581,860	351,567	3,553,741
Segment profit/(loss)	145,668	279,976	106,996	(18,453)	46,867	561,054
Other segment information:						
Impairment loss on property, plant and equipment	—	—	—	(89,023)	—	(89,023)

* previously known as light-coated linerboard

Six months ended 30 June 2017 (unaudited)

	Paper products					
	White top linerboard RMB'000	Coated-white top linerboard* RMB'000	Core board RMB'000	Specialised paper products RMB'000	Electricity and steam RMB'000	Total 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

* previously known as light-coated linerboard

4. SEGMENT INFORMATION (CONTINUED)

(b) Reconciliation of segment profit

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Profit		
Segment profit	**561,054**	629,069
Unrealised profit on inter-segment sales	**(37,275)**	(42,331)
	523,779	586,738
Other income	**105,260**	54,992
Other gains or losses	**5,791**	(38,630)
Distribution and selling expenses	**(140,371)**	(136,851)
Administrative expenses	**(133,794)**	(109,815)
Finance costs	**(107,203)**	(119,244)
Share of profit of a joint venture	**7,091**	6,292
Consolidated profit before income tax	**260,553**	243,482

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, certain finance costs, and share of profit of a joint venture to paper product segment and does not allocate income tax expense to both the paper product segment and the electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

The Group does not allocate depreciation of property, plant and equipment and amortisation of prepaid lease payments, finance costs 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.

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on:		
Bank deposits	**13,929**	10,615
The balance with a joint venture (note i) (note 22(a))	**7,399**	8,978
Loans to a related company (note ii) (note 22(a))	**—**	1,312
Loans to a third party (note ii)	**1,599**	78
Total interest income	**22,927**	20,983
Government grants (note iii)	**81,731**	33,545
Rental income from an investment property and other properties	**1,165**	1,335
	105,823	55,863

Notes:

i. During the six months ended 30 June 2018, 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 Group, at a weighted average effective interest rate of 6.18% per annum (six months ended 30 June 2017: 6.18% per annum).

ii. On 21 June 2017, a director of the Company disposed all his shares in this related company to an independent third party. The loan was reclassified as "loans to a third party" from "loans to a related company". The interest earned from this loan at a fixed interest rate of 5.22% per annum (six months ended 30 June 2017: 5.22% per annum).

iii. During the six months ended 30 June 2018, 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 RMB80,406,407 and nil respectively, the amounts of which were determined by reference to the amount of value-added tax paid (six months ended 30 June 2017: RMB21,533,000 and RMB11,281,000 respectively).

6. OTHER GAINS OR LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Changes in fair value of an investment property	**—**	(15,147)
Gain from sale of scrap materials, net	**9,376**	3,359
Impairment loss on available-for-sale financial assets	**—**	(2,000)
Impairment loss on prepayments and other receivables	**—**	(2,490)
Impairment loss on property, plant and equipment (note 12)	**(89,023)**	—
Loss on disposal of property, plant and equipment	**(3,842)**	(27,504)
Net foreign exchange (losses)/gains	**(1,885)**	2,283
Reversal of allowance for impairment of trade receivables	**940**	421
Others	**3,137**	2,713
	(81,297)	(38,365)

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Discounted bills financing	**32,957**	54,209
Bank and other borrowings	**61,652**	54,616
Obligation under finance leases	**13,764**	4,964
Corporate bond	**16,960**	21,383
Others	**—**	719
	125,333	135,891
Less: Interest capitalised in construction in progress	**(1,319)**	(1,595)
	124,014	134,296

Borrowing costs capitalised during the six months ended 30 June 2018 arose on the general borrowing pool and were calculated by applying a capitalisation rate at 5.22% (six months ended 30 June 2017: 5.22% to 6.50%) per annum to expenditure on construction in progress.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**98,496**	76,476
Deferred tax credit	**(23,700)**	(3,958)
Charge for the period	**74,796**	72,518

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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong profits tax has not been provided for the six months ended 30 June 2018 and 2017 as the Group has no assessable profits for the period.

9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages and salaries	**122,479**	101,391
Retirement benefits schemes contributions	**19,225**	14,114
Total staff costs (including directors' emoluments)	**141,704**	115,505
Cost of inventories recognised as an expense	**2,540,222**	1,996,969
Depreciation of property, plant and equipment	**184,968**	125,771
Amortisation of prepaid lease payments	**5,205**	3,662
Impairment of property, plant and equipment	**89,023**	—

10. DIVIDENDS

During the current interim period, a final dividend of HK$0.07 (six months ended 30 June 2017: HK$0.04) per share in respect of the year ended 31 December 2017 amounting to a total of HK$57,355,000 (equivalent to approximately RMB48,361,000) (six months ended 30 June 2017: 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 2018.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 was based on the profit of RMB178,976,000 (six months ended 30 June 2017 (unaudited): RMB168,479,000) for the period attributable to owners of the Company, and the weighted average number of 819,362,000 (six months ended 30 June 2017 (unaudited): 802,588,000) ordinary shares in issue during the six months ended 30 June 2018.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2018 and 2017. 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 RMB143,065,000 (six months ended 30 June 2017: RMB29,854,000) for proceeds of RMB139,223,000 (six months ended 30 June 2017: RMB2,350,000), resulting in a loss on disposal of RMB3,842,000 (six months ended 30 June 2017: RMB27,504,000). Construction in progress of approximately RMB48,982,000 (six months ended 30 June 2017: nil) has transferred to prepaid land lease after the constructions has completed and title certificates of land use right have obtained.

In addition, during the current interim period, the Group incurred approximately RMB215,593,000 (six months ended 30 June 2017: RMB24,392,000) on the acquisition of property, plant and equipment and approximately RMB148,020,000 (six months ended 30 June 2017: RMB53,953,000) on construction in progress in order to maintain its manufacturing capabilities, which included interest capitalisation of approximately RMB1,319,000 (six months ended 30 June 2017: RMB1,595,000).

During the six months ended 30 June 2018, the Group carried out a review of the recoverable amount of the property, plant and equipment in a segment owned by a subsidiary, as management has determined that indication of impairment exists at the end of the reporting period due to the market performance was worse than expected and the management has changed the plan on the relevant assets. The review led to the recognition of impairment loss of RMB89,023,000 (2017: nil) that has been recognised in the "other gains or losses" in the Group's profit or loss. The recoverable amount of the related assets has been determined by reference to a valuation performed by an independence qualified professional valuer not connected with the Group. The valuation was arrived at on the basis of making reference to comparable sales evidence as available in the relevant market.

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 Asia-Pacific Consulting and Appraisal Limited, an 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, no subsequent expenditure was incurred for the investment property (six months ended 30 June 2017: RMB75,000). There were no changes to the fair value of investment property that has been recognised directly in profit or loss for the six months ended 30 June 2018 (six months ended 30 June 2017: decrease in fair value of investment property of RMB15,147,000).

The investment property located in Weifang, Shandong, the PRC with a fair value of RMB162,879,000 as at 30 June 2018 (31 December 2017 (audited): RMB162,879,000) is pledged for counter guarantee under the guarantee agreement of the corporate bond (note 20) 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 31 December 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 RMB50,080,000 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. During the current interim period, the Group has completed the application and obtained the title certificates of its land use rights which are located in the PRC.

14. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 45 days to its trade customers. The following is an aging 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 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0–30 days	**538,947**	379,432
31–90 days	**70,612**	40,711
91–365 days	**5,454**	5,360
Over 1 year	**—**	73
	615,013	425,576

14. TRADE RECEIVABLES (CONTINUED)

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
At the beginning of the period/year	9,530	10,311
Adoption of IFRS 9	319	—
Adjusted balance	9,849	10,311
Reversal during the period/year	(940)	(781)
At the end of the period/year	8,909	9,530

15. BILLS RECEIVABLES

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0–90 days	480,121	278,370
91–180 days	239,458	313,560
181–365 days	175,453	173,668
	895,032	765,598

As at 30 June 2018, the Group has discounted bills receivables of RMB94,153,000 (31 December 2017: RMB235,702,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivables and has recognised the cash received upon the discounting as discounted bills financing (note 18).

16. 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 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0–90 days	879,148	759,145
91–365 days	191,072	327,694
Over 1 year	146,985	11,443
	1,217,205	1,098,282

All the bills payables as at 30 June 2018 and 31 December 2017 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.

17. 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 the option to purchase these equipment for a nominal amount at the end of the lease terms. Such transactions was considered as sales and leaseback arrangements resulting in a finance lease.

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current liabilities	269,698	165,571
Non-current liabilities	343,914	210,659
	613,612	376,230

Nominal interest rates underlying all obligations under finance leases are at respective contract dates ranging from 4.39% to 7.43% (31 December 2017 (audited): 4.38% to 8.73%) per annum.

17. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited)
Amounts payable under finance leases				
— Within one year	**300,296**	182,803	**269,698**	165,571
— In more than one year but not more than two years	**270,264**	153,518	**254,954**	144,909
— In more than two years but not more than five years	**92,097**	67,309	**88,960**	65,750
	662,657	403,630	**613,612**	376,230
Less: future finance charges	**(49,045)**	(27,400)	**—**	—
Present value of lease obligations	**613,612**	376,230	**613,612**	376,230
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(269,698)**	(165,571)
Amount due for settlement after 12 months			**343,914**	210,659

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

During the current interim period, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB640,064,000 for a period of 2-3 years. Upon maturity, the Group will be entitled to purchase the Secured Assets.

18. DISCOUNTED BILLS FINANCING

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Discounted bills receivables from third parties (note a)	94,153	235,702
Discounted bills receivables from a joint venture	—	32
Discounted bills receivables from subsidiaries of the Company (note b)	1,428,787	1,220,017
Total	1,522,940	1,455,751

Note:

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 15, 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 payable remain within the Group.

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.

19. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,660,807,000 (six months ended 30 June 2017: RMB1,446,764,000), and repaid loans amounting to RMB1,666,846,000 (six months ended 30 June 2017: RMB1,108,849,000). The newly raised loans bear interest from 4.34% to 7.40% per annum (six months ended 30 June 2017: 3.59% 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.

20. 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 RMB162,879,000 (31 December 2017 (audited): RMB162,879,000) (note 12), and the remaining balance will be repaid with 20% of offering size annually from the year 2018 to year 2021.

21. CAPITAL COMMITMENTS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 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	**349,147**	207,765

22. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these condensed consolidated interim financial statements, the Group entered into the following significant transactions with related parties during the period:

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Sales of electricity and steam to a non-controlling shareholder of a subsidiary	**61,507**	55,073
Purchases of goods from a non-controlling shareholder of a subsidiary	**—**	2,584
Interest income earned from a joint venture (note 5)	**7,399**	8,978
Interest income earned from a related company (note 5)	**—**	1,312

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balance with related parties

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables from a non-controlling shareholder of a subsidiary (note i)	**11,123**	13,216
Balance due from a joint venture (note ii)	**134,097**	142,847

Notes:

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

ii) The balance is unsecured, carries interest at 6.18% per annum (31 December 2017: 6.18% per annum) and will be collected after 12 months from the end of the reporting period.

(c) Compensation of key management personnel

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

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Short term employee benefit	**3,027**	6,698
Retirement benefit scheme contributions	**28**	18
	3,055	6,716